

**MONTMORENCY COUNTY
AUDITED FINANCIAL STATEMENTS
AND CIRCULAR A-133 AUDIT
YEAR ENDED DECEMBER 31, 2003**

**MONTMORENCY COUNTY
TABLE OF CONTENTS**

AUDITOR'S REPORT	<u>PAGE</u> 1-2
COMBINED FINANCIAL STATEMENTS	
Combined Balance Sheet - All Fund Types, Account Groups and Discretely Presented Component Units	3-4
Combined Statement of Revenues, Expenditures, and Changes in Fund Balance - All Governmental Fund Types and Discretely Presented Component Unit	5-6
Combined Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General and Special Revenue Funds	7-8
Combined Statement of Revenue, Expenses, and Changes in Retained Earnings - All Proprietary Fund Types and Discretely Presented Component Unit	9
Combined Statement of Cash Flows - All Proprietary Fund Types and Discretely Presented Component Unit	10-11
Notes to Financial Statements	12-31
GENERAL FUND	
Comparative Balance Sheet	32
Statement of Revenue, Expenditures and Changes in Fund Balance - Budget and Actual	33
Expenditures - Budget and Actual	34-35
Detail Analysis of Revenues	36-37
Detail Analysis of Expenditures	38-43
SPECIAL REVENUE FUNDS	
Combining Balance Sheet	44-49
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances	50-55
DEBT SERVICE FUND	
Building Authority Comparative Balance Sheet and Statement of Revenue, Expenditures and Changes in Fund Balance	56-57
CAPITAL PROJECTS FUND	
Combining Balance Sheet	58
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances	59
INTERNAL SERVICE FUND	
100% Tax Payment Fund Comparative Balance Sheet	60
Statement of Revenue, Expenses, and Changes in Retained Earnings	61
Statement of Cash Flows	62
FIDUCIARY FUNDS	
Combining Balance Sheet - All Agency Funds	63
Combining Statement of Changes in Assets and Liabilities - All Agency Funds	64

**MONTMORENCY COUNTY
TABLE OF CONTENTS (CONTINUED)**

	<u>PAGE</u>
ACCOUNT GROUPS	
General Fixed Assets	65
General Long-term Debt	66
CIRCULAR A-133 REPORTS	
Report on Compliance and Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Governmental Auditing Standards	67-68
Report on Compliance with Requirements Applicable to Each Major Program and On Internal Control Over Compliance in Accordance With OMB Circular A-133	69-70
Schedule of Expenditures of Federal Awards	71
Notes to Schedule of Expenditures of Federal Awards	72
Schedule of Findings and Questioned Costs	73
Summary Schedule of Prior Audit Findings	74
COMMENTS AND RECOMMENDATIONS LETTERS	
Financial Audit Comments	75-78
Circular A-133 Audit Comments	79-80
Internal Control / Fraud Considerations	81-85



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INDEPENDENT AUDITOR'S REPORT

June 4, 2004

Board of Commissioners
Montmorency County
Atlanta, Michigan 49709


I have audited the accompanying general purpose financial statements of the County of Montmorency, Michigan, as of and for the year ended December 31, 2003, as listed in the table of contents. These general purpose financial statements are the responsibility of the County's management. My responsibility is to express an opinion on these general purpose financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion the general purpose financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the County of Montmorency, Michigan, as of December 31, 2003, and results of its operations and the cash flows of its Proprietary Fund Types for the year then ended in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, I have also issued a report dated June 4, 2004 on my consideration of Montmorency County's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of my audit.

My audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The combining financial statements and individual fund statements for the years ended December 31, 2003 and 2002 listed in the table of contents are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the County of Montmorency, Michigan. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*, and is also not a required part of the general purpose financial statements of the County of Montmorency, Michigan. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements for the years ended December 31, 2003 and 2002 and, in my opinion, is fairly presented in all material respects in relation to the general purpose financial statements taken as a whole.



THOMAS R. ZICK CPA, P.C.
CERTIFIED PUBLIC ACCOUNTANT

MONTMORENCY COUNTY
COMBINED BALANCE SHEET - ALL FUND TYPES, ACCOUNT GROUPS AND DISCRETELY
PRESENTED COMPONENT UNITS
DECEMBER 31, 2003

ASSETS	Governmental Fund Types				Proprietary Fund Types Enterprise
	General	Special Revenue	Debt Service	Capital Projects	
Cash demand and time deposits	\$ 299,115	\$ 746,141	\$ 1,728	\$ 13,942	\$ 1,488,330
Investments	542	-0-	-0-	-0-	1,326
Restricted cash	-0-	-0-	-0-	-0-	-0-
Restricted investments	-0-	-0-	-0-	-0-	-0-
Taxes receivable	1,997,326	316,472	-0-	-0-	-0-
Accounts receivable	-0-	15,427	-0-	-0-	281,300
Note receivable	17,948	-0-	-0-	-0-	-0-
Interest and penalties receivable	-0-	-0-	-0-	-0-	-0-
Due from governmental units	107,802	114,961	-0-	-0-	66,267
Due from other funds	38,000	-0-	-0-	-0-	-0-
Inventories	-0-	-0-	-0-	-0-	-0-
Prepaid expenses	-0-	-0-	-0-	-0-	-0-
Land and land improvements	-0-	-0-	-0-	-0-	-0-
Building	-0-	-0-	-0-	-0-	-0-
Equipment	-0-	-0-	-0-	-0-	-0-
Depletable assets	-0-	-0-	-0-	-0-	-0-
Accumulated depreciation	-0-	-0-	-0-	-0-	-0-
Long-term notes receivable	-0-	-0-	-0-	-0-	-0-
Amount available in debt service funds	-0-	159,070	-0-	-0-	-0-
Amount to be provided for retirement of long-term debt	-0-	-0-	-0-	-0-	-0-
	-0-	-0-	-0-	-0-	-0-
Total Assets	\$ 2,460,733	\$ 1,352,071	\$ 1,728	\$ 13,942	\$ 1,837,223
LIABILITIES AND FUND EQUITY					
Liabilities:					
Accounts payable	\$ 53,635	\$ 25,662	\$ -0-	\$ -0-	\$ -0-
Due to other funds	-0-	25,500	-0-	12,500	-0-
Due to governmental units	-0-	59,144	-0-	-0-	-0-
Accrued liabilities	32,921	12,502	-0-	-0-	-0-
Undistributed collections	-0-	-0-	-0-	-0-	-0-
Other current liabilities	-0-	-0-	-0-	-0-	-0-
Deferred revenue	2,015,274	475,542	-0-	-0-	-0-
Installment notes payable	-0-	-0-	-0-	-0-	-0-
General obligation notes payable	-0-	-0-	-0-	-0-	-0-
Bonds payable	-0-	-0-	-0-	-0-	-0-
Estimated liability for landfill closure and postclosure care costs	-0-	-0-	-0-	-0-	-0-
Compensated absences	-0-	-0-	-0-	-0-	-0-
	-0-	-0-	-0-	-0-	-0-
Total Liabilities	2,101,830	598,350	-0-	12,500	-0-
Fund Equity:					
Investment in general fixed assets	-0-	-0-	-0-	-0-	-0-
Reserved for tax administration	-0-	-0-	-0-	-0-	-0-
Reserved for county road fund	-0-	-0-	-0-	-0-	23,483
Reserved for capital projects	-0-	-0-	-0-	-0-	-0-
Undesignated	358,903	753,721	1,728	1,442	-0-
	-0-	-0-	-0-	-0-	-0-
Total Fund Equity	358,903	753,721	1,728	1,442	1,837,223
Total Liabilities and Fund Equity	\$ 2,460,733	\$ 1,352,071	\$ 1,728	\$ 13,942	\$ 1,837,223

See Notes to Financial Statements

Fiduciary Fund Type Trust and Agency	Account Groups		Total Memorandum Only) Primary Government	Discrete Component Units		Total (Memorandum Only) Reporting Entity
	General Fixed Assets	Long-Term Debt		Road Commission	Enterprise Landfill	
\$ 684,811	\$ -0-	\$ -0-	\$ 3,234,067	\$ 494,770	\$ 155,645	\$ 3,884,482
-0-	-0-	-0-	1,868	-0-	1,668,468	1,670,336
-0-	-0-	-0-	-0-	-0-	1,121,656	1,121,656
-0-	-0-	-0-	-0-	-0-	592,857	592,857
-0-	-0-	-0-	2,595,098	-0-	-0-	2,595,098
-0-	-0-	-0-	15,427	268	176,762	192,457
-0-	-0-	-0-	17,948	-0-	-0-	17,948
-0-	-0-	-0-	66,267	-0-	-0-	66,267
-0-	-0-	-0-	222,763	362,142	-0-	584,905
-0-	-0-	-0-	38,000	-0-	-0-	38,000
-0-	-0-	-0-	-0-	184,936	-0-	184,936
-0-	-0-	-0-	-0-	-0-	7,544	7,544
-0-	88,440	-0-	88,440	17,476	5,170,709	5,276,625
-0-	1,744,447	-0-	1,744,447	1,995,041	63,132	3,802,620
-0-	1,105,135	-0-	1,105,135	2,451,486	1,452,724	5,009,345
-0-	-0-	-0-	-0-	83,640	-0-	83,640
-0-	-0-	-0-	-0-	(2,266,329)	(5,006,141)	(7,272,470)
-0-	-0-	-0-	159,070	-0-	-0-	159,070
-0-	-0-	1,728	1,728	-0-	-0-	1,728
-0-	-0-	913,732	913,732	1,230,231	-0-	2,143,963
<u>\$ 684,811</u>	<u>\$ 2,938,022</u>	<u>\$ 915,460</u>	<u>\$10,203,990</u>	<u>\$ 4,553,661</u>	<u>\$ 5,403,356</u>	<u>\$20,161,007</u>
\$ -0-	\$ -0-	\$ -0-	\$ 79,297	\$ 68,015	\$ 38,645	\$ 185,957
-0-	-0-	-0-	38,000	-0-	-0-	38,000
48,727	-0-	-0-	107,871	-0-	-0-	107,871
-0-	-0-	-0-	45,423	50,545	22,781	118,749
446,322	-0-	-0-	446,322	-0-	-0-	446,322
189,762	-0-	-0-	189,762	-0-	-0-	189,762
-0-	-0-	-0-	2,490,816	-0-	-0-	2,490,816
-0-	-0-	-0-	-0-	62,579	704,182	766,761
-0-	-0-	-0-	-0-	-0-	865,000	865,000
-0-	-0-	850,000	850,000	900,000	-0-	1,750,000
-0-	-0-	-0-	-0-	-0-	3,102,801	3,102,801
-0-	-0-	65,460	65,460	267,652	-0-	333,112
<u>684,811</u>	<u>-0-</u>	<u>915,460</u>	<u>4,312,951</u>	<u>1,348,791</u>	<u>4,733,409</u>	<u>10,395,151</u>
-0-	2,938,022	-0-	2,938,022	2,281,314	-0-	5,219,336
-0-	-0-	-0-	23,483	-0-	-0-	23,483
-0-	-0-	-0-	-0-	923,556	-0-	923,556
-0-	-0-	-0-	1,442	-0-	-0-	1,442
-0-	-0-	-0-	2,928,092	-0-	669,947	3,598,039
-0-	2,938,022	-0-	5,891,039	3,204,870	669,947	9,765,856
<u>\$ 684,811</u>	<u>\$ 2,938,022</u>	<u>\$ 915,460</u>	<u>\$10,203,990</u>	<u>\$ 4,553,661</u>	<u>\$ 5,403,356</u>	<u>\$20,161,007</u>

MONTMORENCY COUNTY
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 ALL GOVERNMENTAL FUND TYPES AND DISCRETELY
 PRESENTED COMPONENT UNIT
 FOR THE YEAR ENDED DECEMBER 31, 2003

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>
Revenue:			
Taxes	\$ 2,056,423	\$ 344,708	\$ -0-
Licenses and permits	5,434	183,465	-0-
Federal	16,795	274,916	-0-
State	390,146	309,015	-0-
Charges for services	739,056	-0-	-0-
Fines and forfeits	13,198	49,016	-0-
Interest earned	29,127	3,405	-0-
Reimbursements and refunds	158,486	-0-	-0-
Other	-0-	385,720	-0-
Total Revenue	<u>3,408,665</u>	<u>1,550,245</u>	<u>-0-</u>
Expenditures:			
Legislative	132,531	-0-	-0-
Judicial	563,254	7,433	-0-
General government	870,801	124,510	-0-
Public safety	900,941	556,201	-0-
Public works	-0-	-0-	-0-
Health and welfare	16,232	606,562	-0-
Recreation and cultural	-0-	237,700	-0-
Principal	-0-	-0-	50,000
Interest and fiscal charges	-0-	-0-	46,100
Other	518,308	-0-	-0-
Total Expenditures	<u>3,002,067</u>	<u>1,532,406</u>	<u>96,100</u>
Excess:			
Revenue over (under) expenditures	<u>406,598</u>	<u>17,839</u>	<u>(96,100)</u>
Other financing sources (uses):			
Operating transfers in	12,326	272,115	96,100
Bond proceeds	-0-	-0-	-0-
Operating transfers out	<u>(370,215)</u>	<u>(10,326)</u>	<u>-0-</u>
Total Other Financing Sources (Uses)	<u>(357,889)</u>	<u>261,789</u>	<u>96,100</u>
Excess:			
Revenue and other financing sources over (under) expenditures and other financing uses	48,709	279,628	-0-
Fund balance (deficit) - January 1, 2003	<u>310,194</u>	<u>474,093</u>	<u>1,728</u>
Fund balance (deficit) - December 31, 2003	<u>\$ 358,903</u>	<u>\$ 753,721</u>	<u>\$ 1,728</u>

See Notes to Financial Statements

Capital Projects	Total (Memorandum Only) Primary Government	Discrete Component Unit Road Commission	Total (Memorandum Only) Reporting Entity
\$ -0-	\$ 2,401,131	\$ -0-	\$ 2,401,131
-0-	188,899	43,973	232,872
-0-	291,711	564,263	855,974
-0-	699,161	2,494,605	3,193,766
-0-	739,056	-0-	739,056
-0-	62,214	-0-	62,214
-0-	32,532	13,545	46,077
-0-	158,486	-0-	158,486
<u>144</u>	<u>385,864</u>	<u>1,087,447</u>	<u>1,473,311</u>
<u>144</u>	<u>4,959,054</u>	<u>4,203,833</u>	<u>9,162,887</u>
-0-	132,531	-0-	132,531
-0-	570,687	-0-	570,687
-0-	995,311	-0-	995,311
-0-	1,457,142	-0-	1,457,142
5,331	5,331	4,916,760	4,922,091
-0-	622,794	-0-	622,794
-0-	237,700	-0-	237,700
-0-	50,000	115,973	165,973
-0-	46,100	7,409	53,509
<u>-0-</u>	<u>518,308</u>	<u>-0-</u>	<u>518,308</u>
<u>5,331</u>	<u>4,635,904</u>	<u>5,040,142</u>	<u>9,676,046</u>
<u>(5,187)</u>	<u>323,150</u>	<u>(836,309)</u>	<u>(513,159)</u>
2,000	382,541	-0-	382,541
-0-	-0-	900,000	900,000
<u>-0-</u>	<u>(380,541)</u>	<u>-0-</u>	<u>(380,541)</u>
<u>2,000</u>	<u>2,000</u>	<u>900,000</u>	<u>902,000</u>
(3,187)	325,150	63,691	388,841
<u>4,629</u>	<u>790,644</u>	<u>859,865</u>	<u>1,650,509</u>
<u>\$ 1,442</u>	<u>\$ 1,115,794</u>	<u>\$ 923,556</u>	<u>\$ 2,039,350</u>

MONTMORENCY COUNTY
COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
GENERAL AND SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2003

	General Fund		
	Budget	Actual	Favorable (Unfavorable)
Revenue:			
Taxes	\$ 2,051,776	\$ 2,056,423	\$ 4,647
Licenses and permits	5,000	5,434	434
Federal	21,000	16,795	(4,205)
State	385,627	390,146	4,519
Charges for services	648,637	739,056	90,419
Fines and forfeits	6,500	13,198	(873)
Interest and dividends	30,000	29,127	6,698
Reimbursements and refunds	133,658	158,486	24,828
Other	-0-	-0-	-0-
Total Revenue	<u>3,282,198</u>	<u>3,408,665</u>	<u>126,467</u>
Expenditures:			
Legislative	139,025	132,531	6,494
Judicial	565,894	563,254	2,640
General government	895,223	870,801	24,422
Public safety	907,413	900,941	6,472
Health and welfare	17,845	16,232	1,613
Recreation and cultural	-0-	-0-	-0-
Other	583,736	518,308	65,428
Total Expenditures	<u>3,109,136</u>	<u>3,002,067</u>	<u>107,069</u>
Excess:			
Revenue over (under) expenditures	<u>173,062</u>	<u>406,598</u>	<u>233,536</u>
Other financing sources (uses):			
Operating transfers in	27,000	12,326	(14,674)
Operating transfers out	<u>(374,725)</u>	<u>(370,215)</u>	<u>4,510</u>
Total Other Financing Sources (Uses)	<u>(347,725)</u>	<u>(357,889)</u>	<u>(10,164)</u>
Excess:			
Revenue and other financing sources over (under) expenditures and other financing uses	(174,663)	48,709	223,372
Fund balance (deficit) - January 1	<u>172,164</u>	<u>310,194</u>	<u>138,030</u>
Fund balance (deficit) - December 31	<u>\$ (2,499)</u>	<u>\$ 358,903</u>	<u>\$ 361,402</u>

See Notes to Financial Statements

Special Revenue Funds			Total (Memorandum Only)		
Budget	Actual	Favorable (Unfavorable)	Budget	Actual	Favorable (Unfavorable)
\$ 344,115	\$ 344,708	\$ 593	\$ 2,395,891	\$ 2,401,131	\$ 5,240
167,000	183,465	16,465	172,000	188,899	16,899
278,643	274,916	(3,727)	299,643	291,711	(7,932)
318,606	309,015	(9,591)	704,233	699,161	(5,072)
-0-	-0-	-0-	648,637	739,056	90,419
53,381	49,016	(4,365)	59,881	62,214	(5,238)
1,350	3,405	2,055	31,350	32,532	8,753
-0-	-0-	-0-	133,658	158,486	24,828
<u>422,594</u>	<u>385,720</u>	<u>(36,874)</u>	<u>422,594</u>	<u>385,720</u>	<u>(36,874)</u>
<u>1,585,689</u>	<u>1,550,245</u>	<u>(35,444)</u>	<u>4,867,887</u>	<u>4,958,910</u>	<u>91,023</u>
-0-	-0-	-0-	139,025	132,531	6,494
9,365	7,433	1,932	575,259	570,687	4,572
137,398	124,510	12,888	1,032,621	995,311	37,310
616,607	556,201	60,406	1,524,020	1,457,142	66,878
712,312	606,562	105,750	730,157	622,794	107,363
285,479	237,700	47,779	285,479	237,700	47,779
-0-	-0-	-0-	583,736	518,308	65,428
<u>1,761,161</u>	<u>1,532,406</u>	<u>228,755</u>	<u>4,870,297</u>	<u>4,534,473</u>	<u>335,824</u>
<u>(175,472)</u>	<u>17,839</u>	<u>193,311</u>	<u>(2,410)</u>	<u>424,437</u>	<u>426,847</u>
351,594	272,115	(79,479)	378,594	284,441	(94,153)
<u>(43,122)</u>	<u>(10,326)</u>	<u>32,796</u>	<u>(417,847)</u>	<u>(380,541)</u>	<u>37,306</u>
<u>308,472</u>	<u>261,789</u>	<u>(46,683)</u>	<u>(39,253)</u>	<u>(96,100)</u>	<u>(56,847)</u>
133,000	279,628	146,628	(41,663)	328,337	370,000
<u>474,093</u>	<u>474,093</u>	<u>-0-</u>	<u>646,257</u>	<u>784,287</u>	<u>138,030</u>
<u>\$ 607,093</u>	<u>\$ 753,721</u>	<u>\$ 146,628</u>	<u>\$ 604,594</u>	<u>\$ 1,112,624</u>	<u>\$ 508,030</u>

MONTMORENCY COUNTY
 COMBINED STATEMENT OF REVENUE, EXPENSES AND CHANGES IN RETAINED EARNINGS
 ALL PROPRIETARY FUND TYPES AND DISCRETELY PRESENTED COMPONENT UNIT
 YEAR ENDED DECEMBER 31, 2003

	<u>Primary Government Enterprise Fund</u>	<u>Discrete Component Unit Enterprise Landfill</u>	<u>Total (Memorandum Only) Reporting Entity</u>
Operating Revenue:			
Penalties and interest on taxes	\$ 136,579	\$ -0-	\$ 136,579
Charges for services	<u>-0-</u>	<u>1,467,967</u>	<u>1,467,967</u>
Total Operating Revenue	<u>136,579</u>	<u>1,467,967</u>	<u>1,604,546</u>
Operating Expenses:			
Salaries and wages	-0-	192,528	192,528
Fringe benefits	-0-	102,369	102,369
Service charges/operating expenses	190	389,910	390,100
Supplies	-0-	56,387	56,387
Landfill closure and postclosure care costs	-0-	217,429	217,429
Depreciation	<u>-0-</u>	<u>447,529</u>	<u>447,529</u>
Total Operating Expenses	<u>190</u>	<u>1,406,152</u>	<u>1,406,342</u>
Operating Income (Loss)	<u>136,389</u>	<u>61,815</u>	<u>198,204</u>
Nonoperating Revenue (Expenses):			
Interest revenue	31,207	78,222	109,429
Transfer to other funds	(2,000)	-0-	(2,000)
Interest expense	<u>-0-</u>	<u>(69,129)</u>	<u>(69,129)</u>
Total Nonoperating Revenue (Expenses)	<u>29,207</u>	<u>9,093</u>	<u>38,300</u>
Net Income (Loss)	<u>165,596</u>	<u>70,908</u>	<u>236,504</u>
Retained Earnings - January 1, 2003	1,597,308	599,039	2,196,347
Prior Period Adjustment	<u>74,319</u>	<u>-0-</u>	<u>74,319</u>
Retained Earnings-January 1, 2003 as Restated	<u>1,671,627</u>	<u>599,039</u>	<u>2,270,666</u>
Retained Earnings - December 31, 2003	<u>\$ 1,837,223</u>	<u>\$ 669,947</u>	<u>\$ 2,507,170</u>

See Notes to Financial Statements

MONTMORENCY COUNTY
COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES AND DISCRETELY PRESENTED COMPONENT UNIT
YEAR ENDED DECEMBER 31, 2003

	Primary Government Enterprise Fund	Discrete Component Unit Enterprise Landfill	Total (Memorandum Only) Reporting Entity
Cash Flows From Operating Activities:			
Cash received from customers	\$ -0-	\$ 1,532,126	\$ 1,532,126
Cash received from taxpayers-penalties and interest on delinquent taxes	144,631	-0-	144,631
Cash received from taxpayers delinquent taxes	977,087	-0-	977,087
Purchase of delinquent taxes	(939,569)	-0-	(939,569)
Cash payments for goods and services	(190)	(442,797)	(442,987)
Cash payments to employees for services	-0-	(294,414)	(294,414)
Net Cash Provided (Used) by Operating Activities	<u>181,959</u>	<u>794,915</u>	<u>976,874</u>
Cash Flows From Non Capital Financing Activities:			
Residual equity transfer from other funds	(2,000)	-0-	(2,000)
Net Cash Provided (Used) by Non Capital Financing Activities	<u>(2,000)</u>	<u>-0-</u>	<u>(2,000)</u>
Cash Flows From Capital and Related Financing Activities:			
Acquisition of capital assets - net	-0-	(391,629)	(391,629)
Interest paid on equipment loans & bond debt	-0-	(64,862)	(64,862)
Principal paid on long-term debt	-0-	(575,802)	(575,802)
Proceeds from lease/purchase installment contracts	-0-	243,798	243,798
Proceeds from disposal of capital assets	-0-	143,236	143,236
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>-0-</u>	<u>(645,259)</u>	<u>(645,259)</u>
Cash Flows From Investing Activities:			
Interest on investments	31,207	104,378	135,585
Increase in restricted cash	-0-	(122,637)	(122,637)
Net Cash Provided by Investing Activities	<u>31,207</u>	<u>(18,259)</u>	<u>12,948</u>
Net Increase (Decrease) in Cash and Cash Equivalents	211,166	131,397	342,563
Cash and Cash Equivalents - Beginning Of Year	<u>1,278,490</u>	<u>1,692,716</u>	<u>2,971,206</u>
Cash and Cash Equivalents - End Of Year	<u>\$ 1,489,656</u>	<u>\$ 1,824,113</u>	<u>\$ 3,313,769</u>

See Notes to Financial Statements

MONTMORENCY COUNTY
 COMBINED STATEMENT OF CASH FLOWS - (CONTINUED)
 ALL PROPRIETARY FUND TYPES AND DISCRETELY PRESENTED COMPONENT UNIT
 YEAR ENDED DECEMBER 31, 2003

	<u>Primary Government Internal Service Fund</u>	<u>Discrete Component Unit Enterprise Landfill</u>	<u>Total (Memorandum Only) Reporting Entity</u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:			
Operating Income	\$ 136,389	\$ 61,815	\$ 198,204
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Depreciation	-0-	447,529	447,529
Change in Assets and Liabilities:			
(Increase) Decrease in Accounts Receivable	-0-	64,159	64,159
(Increase) Decrease in Taxes/Penalties Receivable	45,570	-0-	45,570
Increase (Decrease) in Accounts Payable	-0-	3,500	3,500
Increase (Decrease) in Accrued Liabilities	<u>-0-</u>	<u>217,912</u>	<u>217,912</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 181,959</u>	<u>\$ 794,915</u>	<u>\$ 976,874</u>

See Notes to Financial Statements

MONTMORENCY COUNTY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the County conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

DESCRIPTION OF COUNTY OPERATIONS AND FUND TYPES

The County was organized in 1881 and covers an area of approximately 550 square miles with the County seat located in Atlanta, Michigan. The County operates under an elected Board of Commissioners of five (5) members and provides services, assistance and care to its more than 10,000 residents, primarily from the operations of its General Fund and Special Revenue Funds. The County's services, assistance and care includes the (1) general county departments, boards and commissions; (2) court system administration; (3) law enforcement and corrections; (4) assistance and/or institutional care to the aged, needy, wards of the court and neglected children, public and mental health recipients; (5) libraries; (6) recreation, and (7) road construction and maintenance.

REPORTING ENTITY - The financial statements of certain governmental organizations are not included in the financial statements of the County: (1) Education services which are provided to citizens through the several local school districts which are separate governmental entities.

The Governmental Accounting Standards Board (GASB) in its issuance of Statement 14 "The Financial Reporting Entity" and the State of Michigan Department of Treasury established criteria for governmental organizations to be considered to be part of the County for financial reporting purposes. The criteria included oversight responsibility, fiscal dependency and whether the statements would be misleading if data was not included.

DISCRETELY PRESENTED COMPONENT UNITS

COUNTY ROAD COMMISSION - The County Road Commission is considered a component unit of the County. Its financial statement is discretely presented in the County Combined financial Statements as required by accounting principles generally accepted in the United States of America as revised under GASB 14. The component unit columns in the combined financial statements includes only the financial data of the Road Commission. The Road Commission is the only component unit presented discretely as a governmental fund type. This data is reported in a separate column to emphasize that the Road Commission does have an elected Road Commission and for the most part operates separate from the overall County. Complete financial statements can be obtained directly from the Road Commission office at 11445 M-32, Atlanta, Michigan 49709.

SOLID WASTE MANAGEMENT AUTHORITY - The Montmorency-Oscoda-Alpena Solid Waste Management Authority was incorporated during 1998, with by-laws adopted effective August 5, 1998. The Authority is the successor entity to a joint venture between Montmorency and Oscoda Counties and is considered a component unit of Montmorency County which, under GASB #14 is discretely presented as a proprietary (enterprise) fund type. The Authority was incorporated under the provisions of Act No. 233 of 1955 and was created by the counties of Montmorency, Oscoda, and Alpena. The registered office is the Office of the Treasurer of Montmorency County. Each entity appoints two representatives to the Authority Board, one of whom shall be a member of the legislative body of the municipality. The other appointed individual may, but need not be a member of the legislative body of the municipality.

The Authority articles of incorporation specifically stated its intention to assume the assets and liabilities of the joint venture between Montmorency and Oscoda County. In the event of dissolution the assets of the Authority shall be sold and the balance equally divided among the municipalities.

The employees of the Authority participate in all of the fringe benefit programs that Montmorency county employees are offered and information shown in subsequent notes to these financial statements cover Authority Board employees along with the general county employees.

MONTMORENCY COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2003

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

TOTAL MEMORANDUM ONLY - The total memorandum only column(s) contained in the Combined Financial Statements is captioned to indicate financial analytical data. Data in this column does not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

BASIS OF PRESENTATION - The financial activities of the County are recorded in separate funds and account groups, categorized and described as follows:

GOVERNMENTAL FUNDS

GENERAL FUND - This fund is used to account for all financial resources except those required or designated to be accounted for in another fund. Revenues are primarily derived from property taxes, intergovernmental sources, charges for services and interest earned. This fund is the most important of the County's Funds and includes the primary general operating expenditures of the County.

SPECIAL REVENUE FUNDS - These funds are used to account for specific revenues derived primarily from intergovernmental sources, charges for services, interest earned and general fund operating transfers that require separate accounting because of: (1) legal or regulatory provisions, and (2) designations by the County Board of Commissioners.

CAPITAL PROJECT FUND - The Lake Level fund accounts for the construction and financing of lake level improvements paid for by special assessments levied against benefitted properties, and a fund to account for the jail construction was opened during 1991. The courthouse addition was accounted for in a capital projects fund. Initial expenses for bonding were incurred in 2000 and construction occurred in 2002.

DEBT SERVICE FUND - The Debt Service Fund is used to record the funding and payment of principal and interest on debt reported in the General Long-Term Debt Account Group.

PROPRIETARY FUNDS

INTERNAL SERVICE FUND - The County's Internal Service - 100% Tax Payment Fund consists of an unpledged account and three pledged accounts financed by the issuance of general obligation tax notes to purchase delinquent taxes and special assessments, except taxes on personal property, due and payable to the taxing units in the County.

ENTERPRISE FUND - This fund accounts for operations of the Solid Waste Management Authority where the cost of providing services to the general public on a continuing basis is recovered primarily through user charges. This fund is shown as a discretely presented component unit.

FIDUCIARY FUNDS

AGENCY - These funds account for assets held in a trustee capacity or an agent for individuals, private organizations, other governmental units, and/or other funds.

ACCOUNT GROUPS

GENERAL FIXED ASSETS - In conformance with accounting principles generally accepted in the United States of America the combined financial statements include a General Fixed Assets Account Group for the entire County. This account summarizes the fixed assets utilized in the County operations except those reported in the proprietary fund.

MONTMORENCY COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2003

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

GENERAL LONG-TERM DEBT ACCOUNT GROUP - The long-term debt account group presents the balance of general obligation long-term debt except for such debt recorded in the Internal Service - 100% Tax Payment Fund and the Landfill Enterprise Fund.

BASIS OF ACCOUNTING - Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements and relates to the timing of the measurements made regardless of the measurement focus applied.

GOVERNMENTAL FUND TYPES - All Governmental Fund Types are accounted for using the modified accrual basis of accounting. Revenues are generally recognized when measurable and available to finance current operations. Expenditures are generally recognized when the related fund liability is incurred. Exceptions to this general rule are: (1) compensated absence benefits which are recognized when due, and (2) principal and interest on general long-term debt which is recognized when due.

PROPRIETARY FUNDS - All Proprietary Funds are accounted for using the accrual basis of accounting; recognizing revenue when earned and expenses when incurred.

FIDUCIARY AGENCY FUNDS - All Fiduciary Agency Funds are accounted for using the modified accrual basis of accounting. These funds are limited to the collection of amounts which are subsequently returned or paid to third parties.

BUDGETS AND BUDGETARY ACCOUNTING - Except as noted, all fund types and funds are under direct or superintending budgetary control of the County Board of Commissioners. Certain fund's budgets are controlled by other County boards or commissions and/or department heads and certain program budgets are in effect for fiscal periods other than the County's fiscal year.

Governing board of commissions and/or department heads responsible for certain fund budgets transmit the budgetary information to the County Board of Commissioners for review and inclusion in the County's General and Special Appropriations Acts as required by the Uniform Budgeting and Accounting Act - Michigan Public Act 621 of 1978.

In accordance with the Uniform Budgeting and Accounting Act the County Board of Commissioners is responsible for all County funds except the County Road Fund which is the responsibility of the Board of County Road Commissioners, although the County Board of Commissioners has ultimate responsibility.

The County, through its appointed chief administrative and chief fiscal officer, follows the requirements of the Uniform Budgeting and Accounting Act in the preparation and execution of its annual budget. Any violations are disclosed in audits of the County's financial statements as required by law.

Budgets for the County's governmental fund types are adopted on a basis consistent with generally accepted accounting principles. The budgets are amended as required throughout the year and expire at the end of each fiscal year. New budgets must be adopted annually.

PROPERTY AND EQUIPMENT - Property and equipment are stated at cost, or if donated, fair market value. Expenditures which materially extend the useful life of existing properties or equipment are capitalized. All costs relating to construction of facilities and new equipment preparation requiring the County's force wages, fringe benefits, materials, and bond interest costs are capitalized. Certain governmental improvements, including roads, bridges and drains are not capitalized. General fixed assets are recorded as expenditures at the time of purchase and are also recorded in the General Fixed Asset Group of Accounts.

MONTMORENCY COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2003

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Depreciation is recorded on the discretely presented component unit County Road Fund Fixed Assets as follows: depreciation is recorded on the sum-of-the-year-digits method for road equipment and straight-line method for other fixed assets. The Uniform Accounting Procedures Manual for Michigan Road Commissions provides for recording depreciation in the Road General Operating Fund as a charge to various expense accounts and a credit to a depreciation credits account. Accordingly, the annual depreciation expense does not affect the available operating equities of the Road fund.

The Solid Waste Management Authority Enterprise Fund equipment and improvements are depreciated using the straight-line method over their useful lives.

INVENTORY - The discretely presented component unit County Road Commission (Special Revenue Fund) equipment parts and road materials inventories are stated at cost and utilize the first-in, first-out method of accounting. Inventory items are charged to equipment repairs and operations, and to road construction and maintenance as used per the consumption method. All other inventories, including the cost of supplies for other County Funds, are recorded as expenditures at the time of acquisition utilizing the purchase method.

PROPERTY TAXES - Current property taxes are levied as of December 1 each year and attach an enforceable lien of the property. Current property taxes levied are collected by other local units of government until the subsequent year when revenue is recognized for the current budget year. Current property taxes from the December 1 levy, which are received prior to December 31, are normally held in the County's Trust and Agency Fund. It is the County's policy, through its Internal Service 100% Tax Payment Fund, to purchase delinquent real property taxes and special assessments each year to afford 100% collection of the current levy.

COMPENSATED ABSENCES - The current portion of compensated absences benefits are recorded as expenditures in governmental funds when accrued. The remainder of the liability is reported in the general long-term debt group of accounts.

NOTE B - ACCOUNTS RECEIVABLE

PRIMARY GOVERNMENT

Accounts receivable consists of miscellaneous amounts in the 911 Services Fund of \$13,313 and in the Jail Commissary Fund of \$2,114. The total accounts receivable is \$15,427.

NOTE C - DUE FROM OTHER GOVERNMENTAL UNITS

PRIMARY GOVERNMENT

Due from other governmental units consists of amounts due from the State of Michigan of \$60,950 in the General Fund, \$18,954 in the 911 Services Fund, \$18,845 in the Law Enforcement Grant Fund, \$12,168 in the HUD Fund, \$21,853 in the Remonumentation Fund, and \$31,799 in the Child Care Fund. There is \$11,342 due from the Federal government in the COPS in School Fund. There are amounts due from local governmental units of \$46,852 in the General Fund. The total due from governmental units is \$222,763.

DISCRETELY PRESENTED COMPONENT UNIT - ROAD COMMISSION

Due from State of Michigan was \$362,142.

NOTE D - LONG TERM MORTGAGE RECEIVABLE

Long-term mortgage receivable offset by deferred revenue consists of \$159,070 in EDA loans.

MONTMORENCY COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2003

NOTE E - BUDGET / APPROPRIATIONS

Public Act 621 of 1978, section 18 (1), as amended, provides that a County shall not incur expenditures in excess of the amount appropriated. In the body of the financial statements, the County's actual expenditures and budgeted expenditures for the General Fund has been shown on a functional basis. The approved budget of the County for the General Fund and all required special revenue funds was adopted on an activity and/or program level.

The County budgeted for a deficit in the general fund in the amount of \$2,499 which violates P.A. 621.

NOTE F - ACCUMULATED FUND DEFICIT

The County has accumulated a fund balance deficit in the Residential Audit Fund in the amount of \$536.

NOTE G - CASH AND INVESTMENTS

The balance sheet accounts and types of cash items for the Primary Government and the Discretely Presented Component Units are presented below:

<u>Balance Sheet Accounts</u>	<u>Amount</u>	<u>Cash Items</u>	<u>Amount</u>
Cash demand, time deposits, and imprest cash	\$ 3,884,482	Imprest cash	\$ 6,486
Investments	1,670,336	Savings and checking accounts	3,557,040
Restricted cash	1,121,656	Certificates of deposit	1,442,612
Restricted investments	592,857	Investments	2,263,193
Total	<u>\$ 7,269,331</u>		<u>\$ 7,269,331</u>

Deposits - At year-end, the carrying amount of the County's deposits was \$4,999,652 and the bank balance was \$5,170,893. According to the Federal Deposit Insurance Corporation, approximately 15.5% of the total bank balance was covered by federal depository insurance.

Investments - Michigan Compiled Law authorizes the County to deposit and invest in the following:

- (a) Bonds, securities and other direct obligations of the United States or its agencies.
- (b) Certificates of deposit, savings accounts, deposit accounts, or depository receipts of federally insured banks, insured savings and loan associations or credit unions insured by the national credit union administration that are eligible to be depository of surplus money belonging to the State and maintains a principal office or branch office in Michigan.
- (c) Commercial paper rated at time of purchase within the two highest classifications established by not less than two standard rating services. Maturity cannot be more than 270 days after purchase.
- (d) United States government or Federal agency obligation repurchase agreements.
- (e) Bankers' acceptance of United States banks.
- (f) Mutual funds properly registered with the State of Michigan.

MONTMORENCY COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2003

NOTE G - CASH AND INVESTMENTS (CONTINUED)

Investments - The Authority is authorized by Michigan Public Act 20 of 1943 (as amended) to invest surplus funds in U.S. Bonds and Notes, certain commercial paper, bankers acceptances, and mutual fund investment pools that are comprised of authorized investments. The County Treasurer invests those funds. At December 31, 2003 investments were categorized as follows:

December 31, 2003	<u>Category</u>			<u>Current Value</u>
	<u>1</u>	<u>2</u>	<u>3</u>	
U.S. Government Securities	<u>\$ 498,281</u>			<u>\$ 500,780</u>

The County's investments are categorized above to give an indication of the level of risk assumed by the County. Risk category 1 includes those investments that meet any on of the following criteria:

- a. insured
- b. registered
- c. held by County or its agent

Risk categories 2 and 3 include investments that are neither insured nor registered. None of the County's investments were grouped into these categories.

The investments owned by Montmorency County as of December 31, 2003 are listed as follows:

Mutual Funds:

Bank One Governmental Money Market Fund	\$ 1,868
National City Bank Municipal Investment Fund	1,668,468
Dreyfus Money Market Fund	<u>94,576</u>
Total Mutual Funds	<u>1,764,912</u>

Categorized Investments:

U.S. Government Securities	<u>498,281</u>
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Total Investments	<u>\$ 2,263,193</u>
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The Bank One Governmental Money Market Fund, Dreyfus Money Market Fund and National City Bank Municipal Investment Fund were the County's share of investment pools which were made up of U.S. Treasury, Agencies, and instrumentalities, commercial paper, bankers' acceptances, repurchase agreements and reverse repurchase agreements which were not in the name of the County. They are not required to be categorized under GASB #3.

The certificates of deposit in the Enterprise Fund - Solid Waste Management Authority amounting to \$1,121,656 and the investments of \$592,857 were placed into an escrow account at National City Bank under the direction of the Director of the Michigan Department of Environmental Quality. The director of the Department is the beneficiary on the escrow account. The escrow account was established to hold the investments/cash accounts. All earnings must accrue to the escrow account. The Director must approve any disbursements from the account which assures that monitoring of the landfill site will have sufficient funds if needed in future years.

NOTE H - OTHER FINANCING SOURCES AND USES

Other financing sources of \$382,541 and other financing uses of \$380,541 presented on the Combined Statement of Revenues, Expenditures and Changes in Fund Balance - All Governmental Fund Types do not agree by \$2,000 resulting from residual equity transfer from Internal Service Funds - 100% Tax Payment Funds.

MONTMORENCY COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2003

NOTE I - PROPERTY AND EQUIPMENT

PRIMARY GOVERNMENT

The County General Fixed Asset Account Group was developed during the year ended December 31, 2003. An outside appraisal firm developed a listing of fixed assets summarizing current value and historical cost. In prior years the County did not have this information available and the audit opinion was qualified due to a lack of the General Fixed Asset Schedule. The changes in general fixed assets are summarized as follows:

	<u>12/31/02</u>	<u>Additions</u>	<u>Disposals</u>	<u>12/31/03</u>
Land	\$ 81,018	\$ 7,422	\$ -0-	\$ 88,440
Buildings	1,744,447	-0-	-0-	1,744,447
Equipment	1,113,406	105,245	113,516	1,105,135
Total Fixed Assets	<u>\$ 2,938,871</u>	<u>\$ 112,667</u>	<u>\$ 113,516</u>	<u>\$ 2,938,022</u>

DISCRETELY PRESENTED COMPONENT UNIT - ROAD COMMISSION

The following is a summary of changes in the Fixed Asset Account Groups at the discretely presented component unit, County Road Commission.

	<u>Balance 1/1/03</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/03</u>
FIXED ASSET ACCOUNTS				
Land	\$ 17,476	\$ -0-	\$ -0-	\$ 17,476
Buildings	916,595	1,430,044	351,598	1,995,041
Road equipment	2,374,387	-0-	4,263	2,370,124
Shop equipment	20,772	20,696	-0-	41,468
Office equipment	28,551	11,984	3,124	37,411
Engineer's equipment	2,483	-0-	-0-	2,483
Depletable assets	83,640	-0-	-0-	83,640
Total	<u>\$ 3,443,904</u>	<u>\$ 1,462,724</u>	<u>\$ 358,985</u>	<u>\$ 4,547,643</u>
ALLOWANCE FOR DEPRECIATION				
Buildings	\$ 505,182	\$ 46,718	\$ 351,598	\$ 200,302
Road equipment	1,826,875	174,548	4,263	1,997,160
Shop equipment	13,517	3,325	-0-	16,842
Office equipment	20,709	4,017	3,124	21,602
Engineer's equipment	2,483	-0-	-0-	2,483
Depletable assets	27,940	-0-	-0-	27,940
Total	<u>\$ 2,396,706</u>	<u>\$ 228,608</u>	<u>\$ 358,985</u>	<u>\$ 2,266,329</u>
PLANT AND EQUIPMENT EQUITY	<u>\$ 1,047,198</u>	<u>\$ 1,234,116</u>	<u>\$ -0-</u>	<u>\$ 2,281,314</u>

MONTMORENCY COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2003

NOTE I - PROPERTY AND EQUIPMENT (CONTINUED)

DISCRETELY PRESENTED COMPONENT UNIT - SOLID WASTE MANAGEMENT AUTHORITY

A summary of the property, plant, and equipment of the Solid Waste Management Authority as of December 31, 2003 is as follows:

	<u>Balance 1/1/03</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/03</u>
Land and improvements	\$ 5,226,930	\$ 6,911	\$ -0-	\$ 5,233,841
Equipment	<u>1,361,466</u>	<u>384,718</u>	<u>293,460</u>	<u>1,452,724</u>
Total Costs	6,588,396	391,629	293,460	6,686,565
Less accumulated depreciation	<u>(4,708,836)</u>	<u>(447,529)</u>	<u>150,224</u>	<u>(5,006,141)</u>
Net Carrying amount	<u>\$ 1,879,560</u>	<u>\$ (55,900)</u>	<u>\$ 143,236</u>	<u>\$ 1,680,424</u>
	<u>Depreciable Life</u>			
Landfill Improvements	10 years			
Equipment	7&10 years			

Depreciation expense for 2003 was \$447,529.

NOTE J - PENSION PLANS

PRIMARY GOVERNMENT AND DISCRETELY PRESENTED COMPONENT UNIT - SOLID WASTE MANAGEMENT AUTHORITY

Plan Description - Montmorency County participates in a defined benefit retirement plan administered by the Municipal Employee's Retirement System (MERS). The plan covers substantially all full-time employees.

The Municipal Employees Retirement System of Michigan (MERS) is a multiple-employer statewide public employee retirement plan created by the State of Michigan to provide retirement, survivor and disability benefits, on a voluntary basis to the State's local government employees in the most efficient and effective manner possible. As such, MERS is a non-profit entity which has the responsibility of administering the law in accordance with the expressed intent of the Legislature and bears a fiduciary obligation to the State of Michigan, the taxpayers and the public employees who are its beneficiaries.

The passage of HB-5525/Act No. 220, with enactment on May 28, 1996, allowed the members of MERS to vote on and determine if MERS should become an independent public corporation. The vote resulted in approval to become independent of State control and MERS began to operate as an independent public corporation effective August 15, 1996. MERS issues a financial report, available to the public, that includes financial statements and required supplementary information for the system. A copy of the report may be obtained by writing to MERS at 447 N. Canal Road, Lansing, Michigan 48817.

All full time County employees are eligible to participate in the system. Benefits vest after ten years of service. General County employees who retire at or after age 15 with 15 years credited service are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to 2% of the members 5-year final average compensation.

MONTMORENCY COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2003

NOTE J - PENSION PLANS (CONTINUED)

Participating General County employees are not required to contribute to the system. The County is required to contribute the amounts necessary to fund the Michigan Municipal Employees Retirement System using the actuarial basis specified by State Statute.

Actuarial Accrued Liability - The actuarial accrued liability was determined as part of an actuarial valuation of the plan as of December 31, 2002. Significant actuarial assumptions used in determining the investment of present and future assets of 8.0%, (a) inflation, and (b) additional projected salary increases of 0.0% to 4.2% per year, depending on age, attributable to seniority/merit and (c) the assumption that benefits will increase 2.5% annually after retirement.

All entries are based on the actuarial methods and assumption that were used in the December 31, 2002 actuarial valuation to determine the annual employer contribution amounts. the entry age normal actuarial method was used to determine the entries at disclosure.

GASB 25 INFORMATION (as of 12/31/02)

Actuarial Accrued Liability:	
Retirees and beneficiaries currently receiving benefits	\$ 3,437,291
Terminated employees not yet receiving benefits	373,521
Current employees:	
Accumulated employee contributions	
including allocated investment income	1,860
Employer financed	<u>2,426,533</u>
Total Actuarial accrued liability	6,239,205
Net Assets Available for Benefits, at actuarial value	
(Market Value is \$3,340,918)	<u>4,204,392</u>
Unfunded (over funded) actuarial accrued liability	<u>\$ 2,034,813</u>

GASB 27 INFORMATION (as of 12/31/02)

Fiscal year beginning	January 1, 2004
Annual required contribution (ARC)	\$ 252,528
Amortization factor used - Underfunded Liabilities (30 years)	0.053632

Contributions Required and Contributions Made

MERS funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The normal cost and amortization payment for the fiscal year ended December 31, 2002 were determined using the entry age normal actuarial funding method. Unfunded actuarial accrued liabilities, if any, were amortized as a level percent of payroll over a period of 30 years. The following table provides a schedule of contribution amounts and percentages for recent years.

MONTMORENCY COUNTY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE J - PENSION PLAN (CONTINUED)

Annual Pension Cost

<u>Year Ended December 31</u>	<u>Annual Pension Cost (ARC)</u>	<u>Percentage Of ARC Contributed</u>	<u>Net Pension Obligation</u>
2000	\$ 230,956	100%	\$ -0-
2001	209,615	100%	-0-
2002	250,067	100%	-0-

The County was required to contribute \$218,436 for the year ended December 31, 2003. Payments were based on contribution calculations made by MERS.

<u>Actuarial Valuation Date December 31</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a % Of Covered Payroll</u>
2000	3,685,073	5,116,535	1,431,462	72%	1,729,807	83%
2001	4,063,073	5,302,349	1,239,276	77%	1,562,595	79%
2002	4,204,392	6,239,205	2,034,813	67%	1,455,564	140%

For actuarial valuation purposes, the actuarial value of assets is determined on the basis of a calculation method that assumes the fund earns the expected rate of return (8%), and includes an adjustment to reflect market value.

Actuarial assumptions for MERS valuations were revised for the 1993, 1997, and 2000 valuations. The funding method was changed to entry age normal for the 1993 valuation.

The Montmorency Oscoda Alpena Landfill Authority employees were participants in the County pension plan. Pension contributions from the Authority for 2003 and 2002 respectively were \$25,222 and \$23,970. In early 2003 the Authority separated their plan from Montmorency County but MERS had not done an actuarial valuation as of December 31, 2003. Since it was not complete as of the audit date the details that are shown above are derived from the County totals as of the most recent actuarial report which was December 31, 2002. The Authority employees were still part of this plan as of that date.

DISCRETELY PRESENTED COMPONENT UNIT - ROAD COMMISSION

Plan Description - Montmorency County Road Commission has established a defined contribution pension plan with the Manulife Financial covering substantially all employees. Participating employees contribute a portion of their compensation annually and the Commission contributes the remaining amounts necessary to fund the plan according to requirements. The Commission is obligated for 5% of an employees base salary computed as of January 1 each year. Covered payroll was \$845,660 and total payroll was \$1,010,534 for the year. The total contribution to the plan for 2003 was \$43,283.

Funding Status and Progress - Not all of the information required by the Governmental Accounting Standards Board disclosure requirements is included below because the year end reports did not contain the necessary information. The following information was supplied, however.

Account Value at January 1, 2003	\$ 828,833
Employer Contributions	43,283
Employee Contributions	61,196
Net Investment Earnings and Market Value Increase (Decrease)	187,478
Administrative Fees	(9,626)
Total Plan Assets at December 31, 2003	<u>\$ 1,111,164</u>

MONTMORENCY COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2003

NOTE K - LONG-TERM DEBT

Following is a summary of pertinent information concerning the County's long-term debt:

PRIMARY GOVERNMENT

Outstanding Debt Descriptions:

	<u>General County</u>
General Obligation:	
Judicial Annex and Refunding Bonds	\$ 850,000
Compensated absences	<u>65,460</u>
Totals	<u>\$ 915,460</u>

CHANGES IN LONG-TERM DEBT

	<u>General Long-term</u>	<u>Proprietary</u>	<u>Compensated Absences</u>	<u>Total</u>
January 1, 2003	\$ 900,000	\$ -0-	\$ 59,397	\$ 959,397
Additions	-0-	-0-	(1) 6,063	6,063
Reductions	<u>(50,000)</u>	<u>-0-</u>	<u>-0-</u>	<u>(50,000)</u>
December 31, 2003	<u>\$ 850,000</u>	<u>\$ -0-</u>	<u>\$ 65,460</u>	<u>\$ 915,460</u>

(1) Changes in compensated absences are shown as net additions.

GENERAL LONG-TERM DEBT

DESCRIPTION: - Judicial Annex and Refunding General Obligation Bonds - proceeds used to finance the construction of a courthouse addition and to refinance the outstanding correctional facility bonds.

<u>Interest Rates</u>	<u>Maturity Year</u>	<u>Outstanding Principal</u>	<u>12/31/03 Interest</u>
5.00/5.65	2020	\$ 850,000	\$ 388,387
	Total	<u>\$ 1,238,387</u>	

Annual Debt Service Requirements:

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>Other</u>	<u>Total</u>
Principal	\$ 50,000	\$ 50,000	\$ 50,000	\$ 50,000	\$ 50,000	\$ 600,000	\$ 850,000
Interest	<u>43,325</u>	<u>40,825</u>	<u>38,325</u>	<u>35,825</u>	<u>33,325</u>	<u>196,762</u>	<u>388,387</u>
Totals	<u>\$ 93,325</u>	<u>\$ 90,825</u>	<u>\$ 88,325</u>	<u>\$ 85,825</u>	<u>\$ 83,325</u>	<u>\$ 796,762</u>	<u>\$1,238,387</u>

MONTMORENCY COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2003

NOTE K - LONG-TERM DEBT (CONTINUED)

The construction costs for the courthouse addition was \$660,000 and \$335,000 was needed at issue date to repay the correctional facility bonds. In future years 34% of the payment is being charged to the correctional facility and 66% to general fund operations.

The Montmorency County Building Authority under PA 31 of 1948 borrowed the funds. The County has pledged its full faith and credit under lease agreements with the Building Authority and is obligated to levy each year, to the extent necessary, ad valorem taxes necessary for payment of the leases. The leases provide the Building Authority with sufficient funds to pay the debt obligation.

Compensated Absences

The County policies provide for accumulated vacation, sick and personal days. At December 31, 2003 the accumulated totals were \$65,460 for the three combined.

DISCRETELY PRESENTED COMPONENT UNIT - ROAD COMMISSION

<u>Description</u>	<u>1/1/03</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/03</u>
Installment Loans:				
1999 Ford Trucks	\$ 81,294	\$ -0-	\$ 51,242	\$ 30,052
New Holland Tractor/Mower	42,258	-0-	9,731	32,527
Series 1998 Bond Issue	55,000	-0-	55,000	-0-
Series 2003 Bond Issue	-0-	900,000	-0-	900,000
Compensated Absences	<u>276,112</u>	<u>-0-</u>	<u>(1) 8,460</u>	<u>267,652</u>
Totals	<u>\$ 454,664</u>	<u>\$ 900,000</u>	<u>\$ 124,433</u>	<u>\$ 1,230,231</u>

(1) Compensated absences are recorded as a net addition or deduction.

Annual Debt Service Requirements for Long-Term Debt:

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>Other</u>	<u>Total</u>
Principal	\$ 40,319	\$ 95,832	\$101,428	\$ 95,000	\$ 95,000	\$ 535,000	\$ 962,579
Interest	<u>40,330</u>	<u>29,779</u>	<u>27,058</u>	<u>24,180</u>	<u>21,568</u>	<u>60,243</u>	<u>203,158</u>
Totals	<u>\$ 80,649</u>	<u>\$125,611</u>	<u>\$128,486</u>	<u>\$119,180</u>	<u>\$116,568</u>	<u>\$ 595,243</u>	<u>\$1,165,737</u>

Installment Loans:

In 1999 three Ford trucks were purchased with proceeds from a Citizen Banking Corporation installment loan. Payments of \$4,497 are due monthly with an interest rate of 4.75%. The installment note is paid in full July of 2004. In 2002 a New Holland tractor/mower was purchased and financed through New Holland Credit Corp. Annual payments of \$12,055 are due with an interest rate of 5.50%.

Series 98 Bond Issue

During fiscal year 1998 the Road Commission issued notes sponsored by the Michigan Transportation Fund. The amount borrowed was \$250,000 and was borrowed specifically to reroof the Atlanta Road commission facility. The debt was fully paid in 2003.

MONTMORENCY COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2003

NOTE K - LONG-TERM DEBT (CONTINUED)

Series 2003 Michigan Transportation Fund Bond Issue

During 2003 \$900,000 was borrowed to assist in reconstruction of the Atlanta facility necessary after the fire which occurred in 2002. The amortization schedule is as follows:

	Interest Rate	May 1		November 1	
		Interest	Principal	Interest	Principal
2004	2.50%	\$ 23,796	\$ -0-	\$ 14,278	\$ -0-
2005	2.50%	14,278	-0-	14,278	85,000
2006	2.50%	13,215	-0-	13,215	90,000
2007	2.75%	12,090	-0-	12,090	95,000
2008	2.75%	10,784	-0-	10,784	95,000
2009	3.10%	9,478	-0-	9,478	100,000
2010	3.35%	7,927	-0-	7,927	105,000
2011	3.55%	6,169	-0-	6,169	105,000
2012	3.75%	4,305	-0-	4,305	110,000
2013	3.90%	2,242	-0-	2,242	115,000
		<u>\$104,284</u>	<u>\$ -0-</u>	<u>\$ 94,776</u>	<u>\$ 900,000</u>

Interest rates varied between 2.50% and 3.90% over the life of the Bond Issue.

Compensated Absences

Road Commission policies provide for the payment of vacation, sick and personal days accumulated. Accrued sick pay at December 31, 2003 was \$198,107. Vacation and personal days accumulated created a liability of \$69,545 for a total of \$267,652.

DISCRETELY PRESENTED COMPONENT UNIT - SOLID WASTE MANAGEMENT AUTHORITY

CHANGES IN LONG-TERM DEBT

	12/31/02	Additions	Reductions	12/31/03
1999 Bond	\$ 425,000	\$ -0-	\$ 200,000	\$ 225,000
2002 Bond	775,000	-0-	135,000	640,000
Lease/Purchase	<u>701,186</u>	<u>243,798</u>	<u>240,802</u>	<u>704,182</u>
Total	<u>\$ 1,901,186</u>	<u>\$ 243,798</u>	<u>\$ 575,802</u>	<u>\$ 1,569,182</u>

DESCRIPTION - Series 1999 General Obligation Limited Tax Bonds were issued to construct a cell addition to the landfill. It is anticipated that revenues from the joint Authority will be sufficient to repay the bonds as they come due, however, the three counties involved have pledged to levy ad valorem taxes if necessary to repay the bonds.

Year	Interest Rates	Principal	Interest	Total
2004	4.75%	<u>225,000</u>	<u>5,344</u>	<u>230,344</u>
Total		<u>\$ 225,000</u>	<u>\$ 5,344</u>	<u>\$ 230,344</u>

MONTMORENCY COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2003

NOTE K - LONG-TERM DEBT (CONTINUED)

DESCRIPTION - Series 2002 General Obligation Limited Tax Bonds were issued to be used to finance the cost of a new landfill cell. It is anticipated that revenue from the Authority will be sufficient to repay the bonds as they come due, however, the three counties involved have pledged to levy ad valorem taxes if necessary to repay the bonds.

Year	Interest Rates	Principal	Interest	Total
2004	2.50%	150,000	17,545	167,545
2005	2.50%	150,000	13,795	163,795
2006	2.80%	165,000	10,045	175,045
2007	3.10%	175,000	5,425	180,425
Total		<u>\$ 640,000</u>	<u>\$ 46,810</u>	<u>\$ 686,810</u>

DESCRIPTION - In 1999 the Authority purchased a D6 dozer and a 980G wheel loader on finance leases with Caterpillar Financial Services Corporation providing the financing. In 2001 a 627 Caterpillar scraper was purchased with G. E. Credit Company providing the financing. A Bomag compactor was purchased in 2002 with Old National Bank providing the financing. The Caterpillar leases call for final payment of \$1 to purchase the equipment after the sixty lease payments are paid. In 2003 the 980G loader was traded on a 980G II loader with CAT Financial providing the lease/financing. The G. E. Credit lease requires a balloon payment of \$110,000 after 72 monthly payments are made while the Old National Bank lease requires 5 payments beginning in January of 2003. The equipment has been capitalized and the outstanding balances are shown as installment loans in the financial statements. Interest rates vary between 3.75% and 5.75%.

Interest Rates	Outstanding 12/31/03	
	Principal	Interest
3.75/5.75	<u>\$ 704,182</u>	<u>\$ 79,305</u>
Total	<u>\$ 783,487</u>	

Equipment Lease/Purchase Annual Debt Service Requirements:

	2004	2005	2006	2007	Total
Principal	\$ 128,741	\$ 124,439	\$ 130,127	\$ 320,875	\$ 704,182
Interest	29,463	23,892	18,205	7,745	79,305
Totals	<u>\$ 158,204</u>	<u>\$ 148,331</u>	<u>\$ 148,332</u>	<u>\$ 328,620</u>	<u>\$ 783,487</u>

Monthly payments on the equipment are as follows:

D6 dozer	\$ 2,468
980G II wheel loader	3,031
627 scraper	4,928
	<u>\$ 10,427</u>

Annual payment on Bomag compactor is:

\$ 52,827
<u>\$ 52,827</u>

Long-Term Debt Annual Debt Service Requirements

	2004	2005	2006	2007	Total
Principal	\$ 503,741	\$ 274,439	\$ 295,127	\$ 495,875	\$ 1,569,182
Interest	52,352	37,687	28,250	13,170	131,459
Total	<u>\$ 556,093</u>	<u>\$ 312,126</u>	<u>\$ 323,377</u>	<u>\$ 509,045</u>	<u>\$ 1,700,641</u>

MONTMORENCY COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2003

NOTE K - LONG-TERM DEBT (CONTINUED)

Long-Term Debt Summary

	<u>2003</u>	<u>2002</u>
2002 General Obligation Limited Tax Bonds	\$ 640,000	\$ 775,000
1999 General Obligation Limited Tax Bonds	225,000	425,000
Installment Loans	<u>704,182</u>	<u>701,186</u>
Total Debt	1,569,182	1,901,186
Less Current Portion	<u>(503,741)</u>	<u>(505,611)</u>
Net Long-Term Debt	<u>\$1,065,441</u>	<u>\$ 1,395,575</u>

NOTE L - DEFERRED COMPENSATION PLAN

PRIMARY GOVERNMENT

Montmorency County offers its employees a deferred compensation plan created in accordance with IRC Section 457. The plan, available to all County employees, permits them to defer a portion of their current salary until future years. The deferred compensation is not available to the employees until termination, retirement, death, or unforeseeable emergency.

GASB 32 does not require including the deferred compensation balances in a trust and agency fund as has been the case in previous years.

NOTE M - FUND EQUITY RESERVES

Fund Equity reserves can be described as follows:

<u>Reserved For</u>	<u>Amount</u>	<u>Description</u>
Internal Service Fund:		
100% Tax Payment		
Tax Administration	<u>\$ 23,483</u>	Reserved for expenses to be incurred for tax collection process.
Capital Projects	<u>\$ 460</u>	Reserved for courthouse addition

NOTE N - POST EMPLOYMENT HEALTH CARE BENEFITS

PRIMARY GOVERNMENT

In addition to pension benefits described in Note I, the county employment agreement with the Sheriffs department employees and the personnel policy for other county employees provides for certain post employment health care coverage. All county employees must have 15 years of service and be fifty five to receive the benefits. Benefits are received for life for the retiree only. No dependent care coverage is paid for by the county. During 2003 ten individuals were eligible for these benefits and the total cost incurred approximated \$34,564.

DISCRETELY PRESENTED COMPONENT UNIT - ROAD COMMISSION

In addition to pension benefits described in Note I, the discretely presented component unit Road Commission has annually made a motion which provides for certain post employment health care coverage. Presently \$338 per month would be paid towards health insurance coverage for any retired employee. During 2003, five retirees received this benefit and \$21,900 in premiums were paid on their behalf.

MONTMORENCY COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2003

NOTE N - POST EMPLOYMENT HEALTH CARE BENEFITS (CONTINUED)

DISCRETELY PRESENTED COMPONENT UNIT - SOLID WASTE MANAGEMENT AUTHORITY

In addition to pension benefits described in Note I, the county employment agreement with the Sheriffs department employees and the personnel policy for other county employees provides for certain post employment health care coverage. All county employees must have 15 years of service and be fifty five to receive the benefits. Benefits are received for life for the retiree only. No dependent care coverage is paid for by the county. During 2003 two individuals were eligible for these benefits and the total cost incurred approximated \$7,016. This was paid on behalf of former eligible Authority employees.

NOTE O - CLOSURE AND POSTCLOSURE CARE COSTS

DISCRETELY PRESENTED COMPONENT UNIT - SOLID WASTE MANAGEMENT AUTHORITY

State and federal laws and regulations require that the Solid Waste Management Authority place a final cover on its landfill when closed and perform certain maintenance and monitoring functions at the landfill site for thirty years after closure. In addition to operating expenses related to current activities of the landfill, an expense provision and related liability are being recognized based on the future closure and postclosure care costs that will be incurred near or after the date the landfill no longer accepts waste. The recognition of these landfill closure and postclosure care costs is based on the amount of the landfill used during the year. The estimated liability for landfill closure and postclosure care costs has a balance of \$3,102,801 as of December 31, 2003, which is based on all cells completed except for the current cell A - Phase II which is 44% filled based upon engineer estimates. At recent rates of refuse received the current cell has an estimated twenty-two months remaining capacity. It is estimated that an additional \$249,497 will be recognized as closure and postclosure care expenses between the date of the balance sheet and the date the current cell is expected to be filled to capacity. The estimated total current cost of the landfill closure and postclosure care \$3,352,298 is based on the amount that would be paid if all equipment, facilities, and services required to close, monitor, and maintain the landfill were acquired as of December 31, 2003. However, the actual cost of closure and postclosure care may be higher due to inflation, changes in technology, or changes in landfill laws and regulations. The Authority has completed construction of an additional cell which began being filled in July of 2002 and was 44% filled according to engineer estimates.

The Solid Waste Management Authority is required by state and federal laws and regulations to make annual contributions to finance closure and postclosure care. The County feels it is in compliance with these requirements, and at December 31, 2003, certificates of deposit and other investments in the amount of \$1,714,513 are held for these purposes. It is anticipated that future inflation costs will be financed in part from earnings on investments. The remaining portion of anticipated future inflation costs (including inadequate earnings on investments, if any) and additional costs that might arise from changes in postclosure requirements (due to changes in technology or more rigorous environmental regulations, for example) may need to be covered by charges to future landfill users, taxpayers, or both. Governmental Accounting Standards Board Statement No. 18 describes the accounting requirements for solid waste landfill closure and postclosure care costs. The estimated expense for closure and postclosure care costs for 2003 was \$217,429.

NOTE P - RISK MANAGEMENT

PRIMARY GOVERNMENT

The County is exposed to risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The government manages its risk exposures and provides certain employee benefits through a combination of self-insurance programs, risk management pools and commercial insurance and excess coverage policies. Following is a summary of these self-insurance programs and risk management pool participation.

MONTMORENCY COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2003

NOTE P - RISK MANAGEMENT (CONTINUED)

The County participates in the Michigan Municipal Risk Management Authority (MMRMA) for general and automobile liability, motor vehicle physical damage and property damage coverage. The MMRMA was established in January 1980, pursuant to laws of the State of Michigan which authorize local units of government to jointly exercise any power, privilege or authority which each might exercise separately. The purpose of the Authority is to provide cooperative and comprehensive risk financing and risk control services. The MMRMA provides risk management, underwriting, reinsurance and claim review and processing services for all member governments pursuant to its charter.

The government makes annual contributions to MMRMA based on actuarial studies using historical data and insurance industry statistics. These contributions are paid from the general fund (i.e., the Insurance Fund) using premiums paid into it by other funds of the government. Such contributions as received by MMRMA are allocated between its general and member retention funds. Economic resources in the MMRMA's general fund are expended for reinsurance coverage, claim payments and certain general and administrative costs. The County is a State pool member and has deductibles which differ for each type of coverage.

The County is a member of the Michigan Counties Workers' Compensation Fund. Full statutory coverage for worker's disability compensation and employers' liability is guaranteed by the fund for Michigan operations through authority granted by the State of Michigan under Chapter 6, Section 418.611.

At December 31, 2003, there were no claims which exceeded insurance coverage. The County had no significant reduction in insurance coverage from previous years.

DISCRETELY PRESENTED COMPONENT UNIT - ROAD COMMISSION

The Road Commission is self-insured for worker's compensation as a member of the County Road Association Self Insurance Fund and also for general liability, vehicle coverage and building coverage. An annual premium is paid to the association and premium rebates or additional amounts due are calculated annually based upon claim history experienced by the Association.

DISCRETELY PRESENTED COMPONENT UNIT - SOLID WASTE MANAGEMENT AUTHORITY

The Authority is exposed to risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The government manages its risk exposures and provides certain employee benefits through a combination of self-insurance programs, risk management pools and commercial insurance and excess coverage policies. Following is a summary of these self-insurance programs and risk management pool participation.

The Authority participates in the Michigan Municipal Risk Management Authority (MMRMA) for general liability and property damage coverage. The MMRMA was established in January 1980, pursuant to laws of the State of Michigan which authorize local units of government to jointly exercise any power, privilege or authority which each might exercise separately. The purpose of the Authority is to provide cooperative and comprehensive risk financing and risk control services. The MMRMA provides risk management, underwriting, reinsurance and claim review and processing services for all member governments pursuant to its charter.

The government makes annual contributions to MMRMA based on actuarial studies using historical data and insurance industry statistics. These contributions are paid from the general fund (i.e., the Insurance Fund) using premiums paid into it by other funds of the government. Such contributions as received by MMRMA are allocated between its general and member retention funds. Economic resources in the MMRMA's general fund are expended for reinsurance coverage, claim payments and certain general and administrative costs. The Authority is a State pool member and has deductibles which differ for each type of coverage.

MONTMORENCY COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2003

NOTE P - RISK MANAGEMENT (CONTINUED)

The Authority is a member of the Michigan Counties Workers' Compensation Fund. Full statutory coverage for worker's disability compensation and employers' liability is guaranteed by the fund for Michigan operations through authority granted by the State of Michigan under Chapter 6, Section 418.611.

At December 31, 2003, there were no claims which exceeded insurance coverage. The Authority had no significant reduction in insurance coverage from previous years.

NOTE Q - HOUSING COMMISSION/HOUSING FUND

Effective October 15, 2001 the County entered into an agreement with Montmorency Area Rural Community Housing (MARCH, Inc.) to administer the current housing grants and future housing grants obtained by Montmorency County. MARCH, Inc. will also administer the collection of loan repayments under a loan servicing agreement.

MARCH, Inc. will act as a subrecipient of grant proceeds in the future and the Montmorency County Housing Commission will cease to exist. MARCH, Inc. has agreed to abide by all grant requirements and will report to Montmorency County as required to meet administrative and audit guidelines.

As part of this agreement, MARCH, Inc. had agreed to pay the sum of \$77,947 to the Montmorency County General Fund over a four year period. The first installment was due December 20, 2001 in the amount of \$20,000 and was timely received as were the second and third installments. The balance of the promissory note is recorded on the General Fund as an asset and offset by deferred revenue. There is no interest assessed on the balance due unless a delinquency occurs. The following schedule details the due date and amounts due.

<u>Date Due</u>	<u>Amount</u>
December 20, 2004	\$ 17,947
	<u>\$ 17,947</u>

MARCH, Inc. is a separate entity from Montmorency County and activity reflected in the Housing Fund for 2003 is only amounts passed through to MARCH, Inc. Expenditures are shown as transfer to other agencies which are the amounts transferred to MARCH, Inc. MARCH, Inc. is not reported as a component unit.

NOTE R - FUND BALANCE RESTATEMENT/ PRIOR PERIOD ADJUSTMENT

PRIMARY GOVERNMENT

Restatement to fund Balance - Delinquent Tax Fund -In prior years the County had not recorded interest, penalties and fees receivable on delinquent taxes. The County recorded this balance as of January 1, 2002. The effect on the fund balances and the 2002 and 2003 Statement of Revenue and Expenses is as follows:

	<u>1/1/02</u>	<u>12/31/02</u>	<u>12/31/03</u>
Receivable for Interest, Penalties and Fees	\$ 81,920	\$ 74,319	\$ 66,267
Effect on Statement of Revenue and Expenses	\$ N/A	\$ (7,601)	\$ (8,052)

DISCRETELY PRESENTED COMPONENT UNIT - ROAD COMMISSION

An adjustment to the opening fund balance as of January 1, 2002 at the Road Commission was recorded in order to implement Michigan Department of Treasury Numbered Letter #2002-5. The adjustment of \$162,232 brings the Road Commission into compliance with the modified accrual basis of accounting for the ACT 51 funds. This allowed the Road Commission to include only twelve month's revenue in 2003 in order to comply with the Numbered Letter.

MONTMORENCY COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2003

NOTE S - FEDERAL REVENUE/GRANTS

DISCRETELY PRESENTED COMPONENT UNIT - ROAD COMMISSION

The accompanying financial statements reports federal revenue for the year ended December 31, 2003 as \$564,263. All of this revenue was for contracted projects paid for and administered by the Michigan Department of Transportation. These contracted projects are not subject to A-133 single audit requirements at the individual road commission level, as they are included in the MDOT's single audit. A single audit is not required at Montmorency County Road Commission for the fiscal year ended December 31, 2003.

NOTE T - EQUIPMENT LEASES

DISCRETELY PRESENTED COMPONENT UNIT - ROAD COMMISSION

The Road Commission entered into long term equipment leases during 1997. They had a maturity date of 7/15/02. All were renewed with the following terms:

<u>Equipment Item</u>	<u>Lease Maturity Date</u>	<u>Monthly Lease Payment</u>	<u>Guaranteed Purchase Amount</u>
CAT 950 Wheel Loader	08/15/05	\$ 1,500	67,000
CAT 928 Wheel Loader	07/15/05	1,131	35,952
CAT 928 Wheel Loader	07/15/05	1,131	35,952
CAT 143H Motor Grader	07/15/05	1,744	77,359
CAT 143H Motor Grader	07/15/05	2,101	77,712
CAT 143H Motor Grader	07/15/05	1,847	77,460
CAT 613 Scraper	05/15/04	1,678	120,000
		<u>\$ 11,132</u>	

NOTE U - FIRE PROCEEDS/DEFERRED REVENUE

DISCRETELY PRESENTED COMPONENT UNIT - ROAD COMMISSION

During 2002 a fire damaged the Atlanta garage and main office of the Road Commission. Clean up costs and partial repairs were incurred during 2002. The insurance settlement totaled \$1,000,000 for the building and clean up of which \$500,000 was received prior to December 31, 2002 while the balance was received early in January 2003 and has been recorded as an account receivable. At December 31, 2002 \$209,986 in costs had been incurred related to the fire. The balance of the \$1,000,000 is recorded as a deferred revenue which was \$790,014. Most of the building repair and renovation occurred in 2003 and those costs when incurred were matched against the deferred revenue account.

NOTE V - ENVIRONMENTAL REMEDIATION

DISCRETELY PRESENTED COMPONENT UNIT - ROAD COMMISSION

The Road Commission had fuel contamination at their Atlanta location and over the past several years have performed clean-up procedures including monitoring of various test wells installed around the contamination site. In order to obtain the Michigan Department of Environmental Quality closure for the site, additional test wells are now being required which will cost approximately \$110,000. Monitoring of these wells will also be required at an additional cost. It is the opinion of the environmental consultants that these additional procedures should allow for state approved closure to occur in the near future.

MONTMORENCY COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2003

NOTE W - INTERFUND RECEIVABLES AND PAYABLES

Following is an analysis of the interfund receivables and payables:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General Fund	\$ 10,000	COPS in School Fund	\$ 10,000
General Fund	500	Veterans' Trust Fund	500
General Fund	15,000	Remonumentation Fund	15,000
General Fund	<u>12,500</u>	Lake Level Fund	<u>12,500</u>
	<u>\$ 38,000</u>		<u>\$ 38,000</u>

MONTMORENCY COUNTY
GENERAL FUND
COMPARATIVE BALANCE SHEET
DECEMBER 31, 2003 AND 2002

	<u>2003</u>	<u>2002</u>
ASSETS		
Cash demand and time deposits		
Investments	\$ 299,115	\$ 209,290
Accounts receivable	542	13,668
Note receivable	-0-	5,440
Due from other funds	17,948	37,948
Due from governmental units	38,000	39,500
Taxes receivable	107,802	151,551
	<u>1,997,326</u>	<u>1,942,633</u>
Total Assets	<u><u>\$ 2,460,733</u></u>	<u><u>\$ 2,400,030</u></u>
 LIABILITIES AND FUND EQUITY		
Liabilities:		
Accounts payable	\$ 53,635	\$ 79,217
Accrued liabilities	32,921	30,038
Deferred revenue	<u>2,015,274</u>	<u>1,980,581</u>
Total Liabilities	<u>2,101,830</u>	<u>2,089,836</u>
Fund Equity:		
Fund balance:		
Undesignated	<u>358,903</u>	<u>310,194</u>
Total Fund Equity	<u>358,903</u>	<u>310,194</u>
Total Liabilities and Fund Equity	<u><u>\$ 2,460,733</u></u>	<u><u>\$ 2,400,030</u></u>

See Notes to Financial Statements

MONTMORENCY COUNTY
GENERAL FUND
COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
DECEMBER 31, 2003 AND 2002

	2003			2002
	Budget	Actual	Favorable (Unfavorable)	Actual
Revenue:				
Taxes	\$ 2,051,776	\$ 2,056,423	\$ 4,647	\$ 1,977,026
Licenses and permits	5,000	5,434	434	5,526
Federal	21,000	16,795	(4,205)	39,076
State	385,627	390,146	4,519	412,153
Charges for services	648,637	739,056	90,419	703,136
Interest and dividends	30,000	29,127	(873)	37,840
Fines and forfeitures	6,500	13,198	6,698	14,128
Reimbursements and refunds	133,658	158,486	24,828	138,242
Total Revenue	<u>3,282,198</u>	<u>3,408,665</u>	<u>126,467</u>	<u>3,327,127</u>
Expenditures:				
Legislative	139,025	132,531	6,494	121,931
Judicial	565,894	563,254	2,640	513,887
General government	895,223	870,801	24,422	848,443
Public safety	907,413	900,941	6,472	900,910
Health and welfare	17,845	16,232	1,613	21,170
Other	583,736	518,308	65,428	563,721
Total Expenditures	<u>3,109,136</u>	<u>3,002,067</u>	<u>107,069</u>	<u>2,970,062</u>
Excess: Revenue over (under) expenditures	<u>173,062</u>	<u>406,598</u>	<u>233,536</u>	<u>357,065</u>
Other financing sources (uses):				
Operating transfers in	27,000	12,326	(14,674)	30,344
Operating transfers out	(374,725)	(370,215)	4,510	(239,350)
Total Other Financing Sources (Uses)	<u>(347,725)</u>	<u>(357,889)</u>	<u>(10,164)</u>	<u>(209,006)</u>
Excess: Revenue and other financing sources over (under) expenditures and other financing uses	(174,663)	48,709	223,372	148,059
Fund balance (deficit) - January 1	<u>172,164</u>	<u>310,194</u>	<u>138,030</u>	<u>162,135</u>
Fund balance (deficit) - December 31	<u>\$ (2,499)</u>	<u>\$ 358,903</u>	<u>\$ 361,402</u>	<u>\$ 310,194</u>

See Notes to Financial Statements

MONTMORENCY COUNTY
GENERAL FUND
EXPENDITURES - BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2003

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Legislative:			
Board of Commissioners	\$ 139,025	\$ 132,531	\$ 6,494
Total Legislative	<u>139,025</u>	<u>132,531</u>	<u>6,494</u>
Judicial:			
Circuit Court	167,648	167,414	234
District Court	158,449	157,915	534
Friend of the Court	63,550	63,526	24
Family Court	35,848	35,808	40
Jury Commission	1,131	929	202
Court Appointed Attorney	66,929	66,929	-0-
Probate Court	<u>72,339</u>	<u>70,733</u>	<u>1,606</u>
Total Judicial	<u>565,894</u>	<u>563,254</u>	<u>2,640</u>
General Government:			
Elections	761	760	1
County Clerk	119,955	117,510	2,445
Equalization	70,676	69,831	845
Prosecuting Attorney	145,345	142,603	2,742
Register of Deeds	77,314	77,103	211
Planning Commission	920	152	768
General Services	90,254	85,559	4,695
Treasurer	114,403	110,484	3,919
Cooperative Extension	39,050	38,804	246
Data Processing	82,420	81,518	902
Courthouse and Grounds	88,260	81,029	7,231
Auto Repair and Maintenance	52,937	52,808	129
Drain Commissioner	<u>12,928</u>	<u>12,640</u>	<u>288</u>
Total General Government	<u>895,223</u>	<u>870,801</u>	<u>24,422</u>
Public Safety:			
Sheriff	443,549	441,192	2,357
Jail	435,296	432,288	3,008
Emergency Services	19,070	18,445	625
Soil Erosion	7,623	7,430	193
Animal Control	<u>1,875</u>	<u>1,586</u>	<u>289</u>
Total Public Safety	<u>907,413</u>	<u>900,941</u>	<u>6,472</u>

See Notes to Financial Statements

MONTMORENCY COUNTY
GENERAL FUND
EXPENDITURES - BUDGET AND ACTUAL (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2003

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Health and Welfare:			
Medical Examiner	\$ 6,269	\$ 5,493	\$ 776
Social Welfare	5,001	4,810	191
Veterans Service Board	2,075	2,029	46
Veterans Burial	<u>4,500</u>	<u>3,900</u>	<u>600</u>
Total Health and Welfare	<u>17,845</u>	<u>16,232</u>	<u>1,613</u>
Other:			
Insurance and Fringe Benefits	286,696	268,436	18,260
Dues and Memberships	8,533	8,533	-0-
Capital Outlay	89,825	86,336	3,489
Contingency	16,000	-0-	16,000
Appropriations	<u>182,682</u>	<u>155,003</u>	<u>27,679</u>
Total Other	<u>583,736</u>	<u>518,308</u>	<u>65,428</u>
Total Expenditures	<u>3,109,136</u>	<u>3,002,067</u>	<u>107,069</u>
Operating Transfers:			
Law Enforcement Grant	15,943	15,943	-0-
Law Library	7,365	7,365	-0-
ROD Automation	10,256	10,256	-0-
Budget Stabilization	133,000	133,000	-0-
Truancy	9,200	4,700	4,500
Child Care	100,000	100,000	-0-
Veterans' Affairs	500	500	-0-
Remonumentation	351	351	-0-
Lake Levels	2,000	2,000	-0-
Building Authority Debt Service	<u>96,110</u>	<u>96,100</u>	<u>10</u>
Total Operating Transfers	<u>374,725</u>	<u>370,215</u>	<u>4,510</u>
Total Expenditures and Operating Transfers	<u>\$ 3,483,861</u>	<u>\$ 3,372,282</u>	<u>\$ 111,579</u>

See Notes to Financial Statements

MONTMORENCY COUNTY
DETAIL ANALYSIS OF REVENUES - GENERAL FUND
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003

TAXES:

Property taxes	\$ 1,947,435	
Swamp tax	<u>108,988</u>	\$ 2,056,423

LICENSES AND PERMITS:

Licenses	<u>5,434</u>	5,434
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FEDERAL:

Emergency services	8,543	
Prosecuting attorney cooperative reimbursement	<u>8,252</u>	16,795

STATE:

Judges standardization	27,162	
Probate judge salary reimbursement	19,002	
Prosecuting attorney cooperative reimbursement	4,125	
Liquor license	11,520	
State revenue sharing - General	181,003	
Convention facility tax	49,969	
Cigarette tax	6,203	
Voter's registration	223	
Drunk driving	3,494	
Circuit court equity	70,765	
Victim's rights	<u>16,680</u>	390,146

CHARGES FOR SERVICES:

Circuit court costs and fees	24,183	
District court costs and fees	212,442	
Friend of court	868	
Animal control	1,257	
Probate court costs and fees	5,319	
Clerk services	13,751	
Register of deeds services	126,905	
Register of deeds transfer tax	42,560	
Sheriff services	18,610	
Treasurer services	14,710	
Equalization services	22,795	
Office leases	17,665	
Jail	217,518	
Soil erosion services	8,473	
Landfill administration	<u>12,000</u>	739,056

INTEREST AND DIVIDENDS:

	<u>29,127</u>	29,127
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See Notes to Financial Statements

MONTMORENCY COUNTY
DETAIL ANALYSIS OF REVENUES - GENERAL FUND (CONTINUED)
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003

FINES AND FORFEITURES:

District court bond forfeit	\$ 13,198	\$ 13,198
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REIMBURSEMENTS AND REFUNDS:

Donations	75,000	
District health utility reimbursement	3,792	
Miscellaneous & reimbursements	<u>79,694</u>	<u>158,486</u>

Total Revenue		3,408,665
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OTHER FINANCING SOURCES:

Operating Transfers In:		
Tax Payment Funds	2,000	
Jail Commissary	<u>10,326</u>	

Total Other Financing Sources		<u>12,326</u>
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Total Revenue and Other Financing Sources		<u>\$ 3,420,991</u>
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See Notes to Financial Statements

MONTMORENCY COUNTY
GENERAL FUND
DETAIL ANALYSIS OF EXPENDITURES
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003

BOARD OF COMMISSIONERS:

LEGISLATIVE

Salaries and per diem	\$	89,418	
Fringes		28,930	
Travel and conferences		12,054	
Supplies		472	
Service charges		<u>1,657</u>	\$ 132,531

CIRCUIT COURT:

JUDICIAL

Contribution to other governmental units		154,247	
Lease		<u>13,167</u>	167,414

DISTRICT COURT:

Salaries and wages		102,930	
Fringes		30,251	
Supplies		5,223	
Travel		2,928	
Attorney fees		13,125	
Jury and witness fees		1,665	
Transcripts		693	
Communications		945	
Services		<u>155</u>	157,915

FRIEND OF THE COURT:

Contribution to other governmental units		<u>63,526</u>	63,526
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FAMILY COURT:

Contribution to other governmental units		<u>35,808</u>	35,808
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JURY COMMISSION:

Per diem		480	
Supplies		150	
Travel		<u>299</u>	929

COURT APPOINTED ATTORNEY:

Attorney expense		<u>66,929</u>	66,929
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See Notes to Financial Statements

MONTMORENCY COUNTY
 DETAIL ANALYSIS OF EXPENDITURES - GENERAL FUND (CONTINUED)
 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003

PROBATE COURT:

Salaries and wages		
Fringes	\$ 60,534	
Supplies	6,878	
Communications	565	
Travel	305	
Services	821	
	<u>1,630</u>	\$ 70,733

ELECTIONS:

GENERAL GOVERNMENT

Per diem		
Supplies	540	
Travel	57	
	<u>163</u>	760

COUNTY CLERK:

Salaries and wages		
Fringes	86,255	
Supplies	27,384	
Communications	1,654	
Travel	312	
Services	1,545	
	<u>360</u>	117,510

EQUALIZATION:

Salaries and wages		
Fringes	25,839	
Communications	14,711	
Supplies	235	
Services	687	
Travel	28,258	
	<u>101</u>	69,831

PROSECUTING ATTORNEY:

Salaries and wages		
Fringes	107,516	
Supplies	23,924	
Communications	1,751	
Travel	1,400	
Contractual services	2,233	
	<u>5,779</u>	142,603

REGISTER OF DEEDS:

Salaries and wages		
Fringes	58,114	
Supplies	13,889	
Communications	1,697	
Travel	370	
Services	1,542	
	<u>1,491</u>	77,103

See Notes to Financial Statements

MONTMORENCY COUNTY
 DETAIL ANALYSIS OF EXPENDITURES - GENERAL FUND (CONTINUED)
 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003

PLANNING COMMISSION:

Salaries and wages	\$	108		
Travel		<u>44</u>	\$	152

GENERAL SERVICES:

Communications				
Supplies		13,806		
Legal expense		3,565		
Contractual		24,480		
Mail service		19,625		
		<u>24,083</u>		85,559

TREASURER:

Salaries and wages				
Fringes		85,215		
Supplies		21,697		
Communications		384		
Travel		155		
Services		2,367		
		<u>666</u>		110,484

COOPERATIVE EXTENSION:

Salaries and wages				
Fringes		37,610		
Communications		634		
Supplies		309		
		<u>251</u>		38,804

DATA PROCESSING:

Supplies				
Contractual services		14,641		
Repairs		51,329		
		<u>15,548</u>		81,518

COURTHOUSE AND GROUNDS:

Contractual services				
Supplies		35,938		
Utilities		1,222		
		<u>43,869</u>		81,029

AUTO REPAIR AND MAINTENANCE:

Salaries and wages				
Fringes		28,944		
Supplies		2,291		
Communications		17,051		
Services		564		
		<u>3,958</u>		52,808

See Notes to Financial Statements

MONTMORENCY COUNTY
 DETAIL ANALYSIS OF EXPENDITURES - GENERAL FUND (CONTINUED)
 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003

DRAIN COMMISSIONER:

Salaries and wages			
Fringes	\$	7,953	
Communications		4,462	
Services		47	
		<u>178</u>	\$ 12,640

SHERIFF:

PUBLIC SAFETY

Salaries and wages			
Fringes		291,097	
Communications		91,885	
Services		7,581	
Supplies		6,750	
Gas and oil		9,687	
Travel		28,149	
Training		428	
Rental		2,015	
		<u>3,600</u>	441,192

JAIL:

Salaries and wages			
Fringes		232,319	
Uniforms and laundry		76,557	
Supplies		1,722	
Travel		6,808	
Food		1,212	
Services		51,247	
Inmate expense		13,099	
Communications		47,822	
		<u>1,502</u>	432,288

SOIL EROSION:

Wages and per diem			
Fringes		5,513	
Services		374	
Travel		306	
		<u>1,237</u>	7,430

EMERGENCY SERVICES:

Contractual services			
		<u>18,445</u>	18,445

ANIMAL CONTROL:

Supplies			
Service charges		928	
		<u>658</u>	1,586

See Notes to Financial Statements

MONTMORENCY COUNTY
 DETAIL ANALYSIS OF EXPENDITURES - GENERAL FUND (CONTINUED)
 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003

<u>MEDICAL EXAMINER:</u>		<u>HEALTH AND WELFARE</u>	
Salaries and wages		\$ 4,116	
Fringes		315	
Services		<u>1,062</u>	\$ 5,493
<u>SOCIAL WELFARE</u>			
Salaries and wages			
Fringes	2,130		
Dues	113		
Travel	938		
	<u>1,629</u>		4,810
<u>VETERANS SERVICE BOARD:</u>			
Salaries and per diem			
Fringes	1,506		
Services	100		
Communications	350		
	<u>73</u>		2,029
<u>VETERANS BURIAL:</u>			
Services		<u>3,900</u>	3,900
<u>INSURANCE AND FRINGE BENEFITS:</u>		<u>OTHER</u>	
General insurance and bonds	37,754		
Unemployment compensation and workman's compensation	10,136		
Health insurance	71,789		
Retirement	<u>148,757</u>		268,436
<u>DUES AND MEMBERSHIPS:</u>			
Dues and memberships		<u>8,533</u>	8,533
<u>CAPITAL OUTLAY:</u>			
Capital outlay		<u>86,336</u>	86,336
<u>APPROPRIATIONS:</u>			
District Health Department #4	83,483		
Huron Pines	300		
NEMCOG	2,639		
Mental health	31,207		
Northern Michigan Substance Abuse & Sunrise Center	26,809		
State Institutions	<u>10,565</u>		<u>155,003</u>

See Notes to Financial Statements

MONTMORENCY COUNTY
DETAIL ANALYSIS OF EXPENDITURES - GENERAL FUND (CONTINUED)
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003

Total Expenditures			<u>\$ 3,002,067</u>
<u>OPERATING TRANSFERS</u>			
Law Enforcement Grants	15,943		
Law Library	7,365		
ROD Automation	10,256		
Budget Stabilization	133,000		
Truancy	4,700		
Child Care	100,000		
Veterans' Trust	500		
Remonumentation	351		
Lake Levels	2,000		
Building Authority Debt Service	<u>96,100</u>		
Total Operating Transfers			<u>370,215</u>
Total Expenditures and Operating Transfers			<u><u>\$ 3,372,282</u></u>

See Notes to Financial Statements

MONTMORENCY COUNTY
COMBINING BALANCE SHEET - ALL SPECIAL REVENUE FUNDS
DECEMBER 31, 2003

	<u>Gypsy Moth</u>	<u>Building Code</u>	<u>Residential Audit</u>	<u>ROD Automation</u>
ASSETS				
Cash demand and time deposits	\$ 118,850	\$ 42,059	\$ 58,918	\$ 9,970
Taxes receivable	-0-	-0-	-0-	-0-
Accounts receivable	-0-	-0-	-0-	-0-
Due from governmental units	-0-	-0-	-0-	-0-
Long-term notes receivable	-0-	-0-	-0-	-0-
	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Total Assets	<u>\$ 118,850</u>	<u>\$ 42,059</u>	<u>\$ 58,918</u>	<u>\$ 9,970</u>
LIABILITIES AND FUND EQUITY				
Liabilities:				
Accounts payable	\$ -0-	\$ 292	\$ -0-	\$ 200
Accrued liabilities	-0-	1,611	310	643
Due to other governments	-0-	-0-	59,144	-0-
Due to other funds	-0-	-0-	-0-	-0-
Deferred revenue	-0-	-0-	-0-	-0-
	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Total Liabilities	<u>-0-</u>	<u>1,903</u>	<u>59,454</u>	<u>843</u>
Fund Equity:				
Undesignated	<u>118,850</u>	<u>40,156</u>	<u>(536)</u>	<u>9,127</u>
Total Fund Equity	<u>118,850</u>	<u>40,156</u>	<u>(536)</u>	<u>9,127</u>
Total Liabilities and Fund Equity	<u>\$ 118,850</u>	<u>\$ 42,059</u>	<u>\$ 58,918</u>	<u>\$ 9,970</u>

See Notes to Financial Statements

<u>Budget Stabilization</u>	<u>911 Services</u>	<u>Law Enforcement Grants</u>	<u>Law Enforcement Training</u>	<u>Law Library</u>	<u>County Library</u>
\$ 133,000	\$ 131,370	\$ 18,092	\$ 3,163	\$ 2,634	\$ 116,751
-0-	-0-	-0-	-0-	-0-	222,808
-0-	13,313	-0-	-0-	-0-	-0-
-0-	18,954	18,845	-0-	-0-	-0-
-0-	-0-	-0-	-0-	-0-	-0-
<u>\$ 133,000</u>	<u>\$ 163,637</u>	<u>\$ 36,937</u>	<u>\$ 3,163</u>	<u>\$ 2,634</u>	<u>\$ 339,559</u>
\$ -0-	\$ 1,987	\$ 992	\$ -0-	\$ 556	\$ 2,454
-0-	4,288	1,138	-0-	-0-	3,480
-0-	-0-	-0-	-0-	-0-	-0-
-0-	-0-	-0-	-0-	-0-	-0-
-0-	-0-	-0-	-0-	-0-	-0-
<u>-0-</u>	<u>6,275</u>	<u>2,130</u>	<u>-0-</u>	<u>556</u>	<u>228,742</u>
<u>133,000</u>	<u>157,362</u>	<u>34,807</u>	<u>3,163</u>	<u>2,078</u>	<u>110,817</u>
<u>133,000</u>	<u>157,362</u>	<u>34,807</u>	<u>3,163</u>	<u>2,078</u>	<u>110,817</u>
<u>\$ 133,000</u>	<u>\$ 163,637</u>	<u>\$ 36,937</u>	<u>\$ 3,163</u>	<u>\$ 2,634</u>	<u>\$ 339,559</u>

MONTMORENCY COUNTY
COMBINING BALANCE SHEET - ALL SPECIAL REVENUE FUNDS (CONTINUED)
DECEMBER 31, 2003

ASSETS	<u>HUD</u>	<u>Economic Development</u>	<u>Cops in School</u>	<u>Truancy</u>
Cash demand and time deposits	\$ -0-	\$ 7,607	\$ 1,401	\$ 577
Taxes receivable	-0-	-0-	-0-	-0-
Accounts receivable	-0-	-0-	-0-	-0-
Due from governmental units	12,168	-0-	11,342	-0-
Long-term notes receivable	-0-	159,070	-0-	-0-
Total Assets	<u>\$ 12,168</u>	<u>\$ 166,677</u>	<u>\$ 12,743</u>	<u>\$ 577</u>
LIABILITIES AND FUND EQUITY				
Liabilities:				
Accounts payable	\$ 12,168	\$ 18	\$ 344	\$ 67
Accrued liabilities	-0-	-0-	1,032	-0-
Due to other governments	-0-	-0-	-0-	-0-
Due to other funds	-0-	-0-	10,000	-0-
Deferred revenue	-0-	159,070	-0-	-0-
Total Liabilities	<u>12,168</u>	<u>159,088</u>	<u>11,376</u>	<u>67</u>
Fund Equity:				
Undesignated	-0-	7,589	1,367	510
Total Fund Equity	-0-	7,589	1,367	510
Total Liabilities and Fund Equity	<u>\$ 12,168</u>	<u>\$ 166,677</u>	<u>\$ 12,743</u>	<u>\$ 577</u>

See Notes to Financial Statements

MONTMORENCY COUNTY
COMBINING BALANCE SHEET - ALL SPECIAL REVENUE FUNDS (CONTINUED)
DECEMBER 31, 2003

	<u>Veterans'</u> <u>Trust</u>	<u>Remonumentation</u>	<u>Commission</u> <u>on Aging</u>
ASSETS			
Cash demand and time deposits	\$ 1,058	\$ 20,425	\$ 136
Taxes receivable	-0-	-0-	93,664
Accounts receivable	-0-	-0-	-0-
Due from governmental units	-0-	21,853	-0-
Long-term notes receivable	-0-	-0-	-0-
	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Total Assets	<u>\$ 1,058</u>	<u>\$ 42,278</u>	<u>\$ 93,800</u>
LIABILITIES AND FUND EQUITY			
Liabilities:			
Accounts payable	\$ 68	\$ -0-	\$ -0-
Accrued liabilities	-0-	-0-	-0-
Due to other governments	-0-	-0-	-0-
Due to other funds	500	15,000	-0-
Deferred revenue	-0-	-0-	93,664
	<u>-0-</u>	<u>-0-</u>	<u>93,664</u>
Total Liabilities	<u>568</u>	<u>15,000</u>	<u>93,664</u>
Fund Equity:			
Undesignated	<u>490</u>	<u>27,278</u>	<u>136</u>
Total Fund Equity	<u>490</u>	<u>27,278</u>	<u>136</u>
Total Liabilities and Fund Equity	<u>\$ 1,058</u>	<u>\$ 42,278</u>	<u>\$ 93,800</u>

See Notes to Financial Statements

<u>County</u> <u>Improvement</u>	<u>Jail</u> <u>Commissary</u>	<u>Total</u>
\$ 1,705	\$ 2,135	\$ 746,141
-0-	-0-	316,472
-0-	2,114	15,427
-0-	-0-	114,961
<u>-0-</u>	<u>-0-</u>	<u>159,070</u>
<u>\$ 1,705</u>	<u>\$ 4,249</u>	<u>\$ 1,352,071</u>
\$ -0-	\$ -0-	\$ 25,662
-0-	-0-	12,502
-0-	-0-	59,144
-0-	-0-	25,500
<u>-0-</u>	<u>-0-</u>	<u>475,542</u>
<u>-0-</u>	<u>-0-</u>	<u>598,350</u>
<u>1,705</u>	<u>4,249</u>	<u>753,721</u>
<u>1,705</u>	<u>4,249</u>	<u>753,721</u>
<u>\$ 1,705</u>	<u>\$ 4,249</u>	<u>\$ 1,352,071</u>

MONTMORENCY COUNTY
COMBINING STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE -
ALL SPECIAL REVENUE FUNDS
YEAR ENDED DECEMBER 31, 2003

	<u>Gypsy Moth</u>	<u>Building Code</u>	<u>Residential Audit</u>	<u>ROD Automation</u>
Revenue:				
Taxes	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Federal	-0-	-0-	-0-	-0-
State	1,792	-0-	-0-	-0-
Permits	-0-	183,465	-0-	-0-
Fines and forfeits	-0-	-0-	-0-	-0-
Interest earned	-0-	-0-	-0-	-0-
Other	-0-	-0-	117	-0-
	<u>2</u>	<u>230</u>	<u>590</u>	<u>23,660</u>
Total Revenue	<u>1,794</u>	<u>183,695</u>	<u>707</u>	<u>23,660</u>
Expenditures:				
Judicial	-0-	-0-	-0-	-0-
General government	-0-	-0-	-0-	-0-
Public safety	-0-	-0-	1,243	24,789
Health and welfare	-0-	157,530	-0-	-0-
Recreation and cultural	3,886	-0-	-0-	-0-
Other	-0-	-0-	-0-	-0-
	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Total Expenditures	<u>3,886</u>	<u>157,530</u>	<u>1,243</u>	<u>24,789</u>
Excess:				
Revenue over (under) expenditures	<u>(2,092)</u>	<u>26,165</u>	<u>(536)</u>	<u>(1,129)</u>
Other financing sources (uses):				
Operating transfers in	-0-	-0-	-0-	10,256
Operating transfers (out)	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Total Other Financing Sources (Uses)	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>10,256</u>
Excess:				
Revenues and other financing sources over (under) expenditures and other financing sources (uses)	<u>(2,092)</u>	<u>26,165</u>	<u>(536)</u>	<u>9,127</u>
Fund balance (deficit) - January 1	<u>120,942</u>	<u>13,991</u>	<u>-0-</u>	<u>-0-</u>
Fund balance (deficit) - December 31	<u>\$ 118,850</u>	<u>\$ 40,156</u>	<u>\$ (536)</u>	<u>\$ 9,127</u>

See Notes to Financial Statements

<u>Budget Stabilization</u>	<u>911 Services</u>	<u>Law Enforcement Grants</u>	<u>Law Enforcement Training</u>	<u>Law Library</u>	<u>County Library</u>
\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ 217,030
-0-	-0-	-0-	-0-	-0-	-0-
-0-	74,354	56,010	2,388	-0-	8,563
-0-	-0-	-0-	-0-	-0-	-0-
-0-	-0-	-0-	-0-	2,000	47,016
-0-	-0-	-0-	-0-	-0-	2,999
-0-	163,048	-0-	-0-	-0-	7,697
-0-	237,402	56,010	2,388	2,000	283,305
-0-	-0-	-0-	-0-	7,433	-0-
-0-	-0-	-0-	-0-	-0-	-0-
-0-	201,436	72,816	4,409	-0-	-0-
-0-	-0-	-0-	-0-	-0-	-0-
-0-	-0-	-0-	-0-	-0-	237,700
-0-	-0-	-0-	-0-	-0-	-0-
-0-	201,436	72,816	4,409	7,433	237,700
-0-	35,966	(16,806)	(2,021)	(5,433)	45,605
133,000	-0-	15,943	-0-	7,365	-0-
-0-	-0-	-0-	-0-	-0-	-0-
133,000	-0-	15,943	-0-	7,365	-0-
133,000	35,966	(863)	(2,021)	1,932	45,605
-0-	121,396	35,670	5,184	146	65,212
<u>\$ 133,000</u>	<u>\$ 157,362</u>	<u>\$ 34,807</u>	<u>\$ 3,163</u>	<u>\$ 2,078</u>	<u>\$ 110,817</u>

MONTMORENCY COUNTY
COMBINING STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE -
ALL SPECIAL REVENUE FUNDS (CONTINUED)
YEAR ENDED DECEMBER 31, 2003

	<u>HUD</u>	<u>Economic Development</u>	<u>Cops in School</u>	<u>Truancy</u>
Revenue:				
Taxes	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Federal	207,853	-0-	40,204	-0-
State	-0-	-0-	-0-	-0-
Permits	-0-	-0-	-0-	-0-
Fines and forfeits	-0-	-0-	-0-	-0-
Interest earned	-0-	-0-	-0-	-0-
Other	-0-	273	-0-	-0-
	<u>73,786</u>	<u>45,420</u>	<u>-0-</u>	<u>29,500</u>
Total Revenue	<u>281,639</u>	<u>45,693</u>	<u>40,204</u>	<u>29,500</u>
Expenditures:				
Judicial	-0-	-0-	-0-	-0-
General government	-0-	61,285	-0-	-0-
Public Safety	-0-	-0-	41,445	48,286
Health and welfare	281,639	-0-	-0-	-0-
Recreation and cultural	-0-	-0-	-0-	-0-
Other	-0-	-0-	-0-	-0-
	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Total Expenditures	<u>281,639</u>	<u>61,285</u>	<u>41,445</u>	<u>48,286</u>
Excess:				
Revenue over (under) expenditures	<u>-0-</u>	<u>(15,592)</u>	<u>(1,241)</u>	<u>(18,786)</u>
Other financing sources (uses):				
Operating transfers in	-0-	-0-	-0-	4,700
Operating transfers (out)	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Total Other Financing Sources (Uses)	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>4,700</u>
Excess:				
Revenues and other financing sources over (under) expenditures and other financing sources (uses)	-0-	(15,592)	(1,241)	(14,086)
Fund balance (deficit) - January 1	<u>-0-</u>	<u>23,181</u>	<u>2,608</u>	<u>14,596</u>
Fund balance (deficit) - December 31	<u>\$ -0-</u>	<u>\$ 7,589</u>	<u>\$ 1,367</u>	<u>\$ 510</u>

See Notes to Financial Statements

<u>State Domestic Preparedness</u>	<u>Michigan Safe Kids</u>	<u>DARE</u>	<u>Victim Advocacy</u>	<u>Child Care</u>	<u>Veterans' Affairs</u>
\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ 36,459
26,859	-0-	-0-	-0-	-0-	-0-
-0-	-0-	-0-	-0-	103,987	-0-
-0-	-0-	-0-	-0-	-0-	-0-
-0-	-0-	-0-	-0-	-0-	-0-
-0-	-0-	-0-	-0-	-0-	-0-
-0-	-0-	-0-	-0-	-0-	-0-
-0-	-0-	1,135	-0-	12,836	-0-
<u>26,859</u>	<u>-0-</u>	<u>1,135</u>	<u>-0-</u>	<u>116,823</u>	<u>36,459</u>
-0-	-0-	-0-	-0-	-0-	-0-
-0-	-0-	-0-	-0-	-0-	-0-
26,883	894	1,853	649	-0-	-0-
-0-	-0-	-0-	-0-	201,105	4,716
-0-	-0-	-0-	-0-	-0-	-0-
-0-	-0-	-0-	-0-	-0-	-0-
<u>26,883</u>	<u>894</u>	<u>1,853</u>	<u>649</u>	<u>201,105</u>	<u>4,716</u>
<u>(24)</u>	<u>(894)</u>	<u>(718)</u>	<u>(649)</u>	<u>(84,282)</u>	<u>31,743</u>
-0-	-0-	-0-	-0-	100,000	-0-
-0-	-0-	-0-	-0-	-0-	-0-
-0-	-0-	-0-	-0-	100,000	-0-
(24)	(894)	(718)	(649)	15,718	31,743
<u>39</u>	<u>1,061</u>	<u>1,309</u>	<u>1,252</u>	<u>52,720</u>	<u>16</u>
<u>\$ 15</u>	<u>\$ 167</u>	<u>\$ 591</u>	<u>\$ 603</u>	<u>\$ 68,438</u>	<u>\$ 31,759</u>

MONTMORENCY COUNTY
COMBINING STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE -
ALL SPECIAL REVENUE FUNDS (CONTINUED)
YEAR ENDED DECEMBER 31, 2003

	Veterans' Trust	Remonumentation	Commission on Aging
Revenue:			
Taxes	\$ -0-	\$ -0-	\$ 91,219
Federal	-0-	-0-	-0-
State	1,180	60,741	-0-
Permits	-0-	-0-	-0-
Fines and forfeits	-0-	-0-	-0-
Interest earned	-0-	-0-	-0-
Other	-0-	-0-	16
	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Total Revenue	<u>1,180</u>	<u>60,741</u>	<u>91,235</u>
Expenditures:			
Judicial	-0-	-0-	-0-
General government	-0-	36,773	-0-
Public Safety	-0-	-0-	-0-
Health and welfare	1,754	-0-	91,100
Recreation and cultural	-0-	-0-	-0-
Other	-0-	-0-	-0-
	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Total Expenditures	<u>1,754</u>	<u>36,773</u>	<u>91,100</u>
Excess:			
Revenue over (under) expenditures	<u>(574)</u>	<u>23,968</u>	<u>135</u>
Other financing sources (uses):			
Operating transfers in	500	351	-0-
Operating transfers (out)	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Total Other Financing Sources (Uses)	<u>500</u>	<u>351</u>	<u>-0-</u>
Excess:			
Revenues and other financing sources over (under) expenditures and other financing sources (uses)	(74)	24,319	135
Fund balance (deficit) - January 1	<u>564</u>	<u>2,959</u>	<u>1</u>
Fund balance (deficit) - December 31	<u>\$ 490</u>	<u>\$ 27,278</u>	<u>\$ 136</u>

See Notes to Financial Statements

<u>County</u> <u>Improvement</u>	<u>Jail</u> <u>Commissary</u>	<u>Total</u>
\$ -0-	\$ -0-	\$ 344,708
-0-	-0-	274,916
-0-	-0-	309,015
-0-	-0-	183,465
-0-	-0-	49,016
-0-	-0-	3,405
<u>-0-</u>	<u>27,816</u>	<u>385,720</u>
<u>-0-</u>	<u>27,816</u>	<u>1,550,245</u>
-0-	-0-	7,433
420	-0-	124,510
-0-	-0-	556,201
-0-	22,362	606,562
-0-	-0-	237,700
<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
<u>420</u>	<u>22,362</u>	<u>1,532,406</u>
<u>(420)</u>	<u>5,454</u>	<u>17,839</u>
-0-	-0-	272,115
<u>-0-</u>	<u>(10,326)</u>	<u>(10,326)</u>
<u>-0-</u>	<u>(10,326)</u>	<u>261,789</u>
(420)	(4,872)	279,628
<u>2,125</u>	<u>9,121</u>	<u>474,093</u>
<u>\$ 1,705</u>	<u>\$ 4,249</u>	<u>\$ 753,721</u>

MONTMORENCY COUNTY
MONTMORENCY COUNTY BUILDING AUTHORITY DEBT SERVICE FUND
COMPARATIVE BALANCE SHEET
DECEMBER 31, 2003 AND 2002

	<u>2003</u>	<u>2002</u>
ASSETS		
Cash	\$ 1,728	\$ -0-
Investments	<u>-0-</u>	<u>1,728</u>
Total Assets	<u>\$ 1,728</u>	<u>\$ 1,728</u>
FUND EQUITY		
Fund Equity:		
Fund balance		
Undesignated	<u>\$ 1,728</u>	<u>\$ 1,728</u>
Total Fund Equity	<u>\$ 1,728</u>	<u>\$ 1,728</u>

See Notes to Financial Statements

MONTMORENCY COUNTY
MONTMORENCY COUNTY BUILDING AUTHORITY DEBT SERVICE FUND
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
YEAR ENDED DECEMBER 31, 2003 AND COMPARISON TO DECEMBER 31, 2002

	<u>2003</u>	<u>2002</u>
Revenue	\$ - 0 -	\$ - 0 -
Expenditures:		
Principal	50,000	50,000
Interest and fees	<u>46,100</u>	<u>48,600</u>
Total Expenditures	<u>96,100</u>	<u>98,600</u>
Excess:		
Revenue over (under) expenditures	<u>(96,100)</u>	<u>(98,600)</u>
Other financing sources (uses):		
Operating transfers in	<u>96,100</u>	<u>98,600</u>
Total Other Financing Sources (Uses)	<u>96,100</u>	<u>98,600</u>
Excess:		
Revenue and other financing sources over (under) expenditures and other financing uses	- 0 -	- 0 -
Fund balance (deficit) - January 1	<u>1,728</u>	<u>1,728</u>
Fund balance (deficit) - December 31	<u><u>\$ 1,728</u></u>	<u><u>\$ 1,728</u></u>

See Notes to Financial Statements

MONTMORENCY COUNTY
COMBINING BALANCE SHEET - ALL CAPITAL PROJECT FUNDS
DECEMBER 31, 2003

	<u>Building Authority</u>	<u>Lake Levels</u>	<u>Total</u>
ASSETS			
Cash	\$ 460	\$ 13,482	\$ 13,942
Total Assets	<u>\$ 460</u>	<u>\$ 13,482</u>	<u>\$ 13,942</u>
LIABILITIES AND FUND EQUITY			
Liabilities:			
Due to other funds	\$ -0-	\$ 12,500	\$ 12,500
Total Liabilities	<u>-0-</u>	<u>12,500</u>	<u>12,500</u>
Fund Equity:			
Fund Balance:			
Designated for Capital projects	<u>460</u>	<u>982</u>	<u>1,442</u>
Total Fund Equity	<u>460</u>	<u>982</u>	<u>1,442</u>
Total Liabilities and Fund Equity	<u>\$ 460</u>	<u>\$ 13,482</u>	<u>\$ 13,942</u>

See Notes to Financial Statements

MONTMORENCY COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
ALL CAPITAL PROJECTS FUNDS
YEAR ENDED DECEMBER 31, 2003

	<u>Building Authority</u>	<u>Lakes Levels</u>	<u>Total</u>
Revenue:			
Taxes	\$ -0-	\$ 144	\$ 144
Total Revenue	<u>-0-</u>	<u>144</u>	<u>144</u>
Expenditures:			
Services/Bond costs	<u>-0-</u>	<u>5,331</u>	<u>5,331</u>
Total Expenditures	<u>-0-</u>	<u>5,331</u>	<u>5,331</u>
Excess:			
Revenue over (under) expenditures	<u>-0-</u>	<u>(5,187)</u>	<u>(5,187)</u>
Other financing sources (uses):			
Operating transfer in	<u>-0-</u>	<u>2,000</u>	<u>2,000</u>
Total Other Financing Sources (Uses)	<u>-0-</u>	<u>2,000</u>	<u>2,000</u>
Excess:			
Revenue and other financing sources over (under) expenditures and other financing uses	-0-	(3,187)	(3,187)
Fund balance (deficit) - January 1	<u>460</u>	<u>4,169</u>	<u>4,629</u>
Fund balance (deficit) - December 31	<u>\$ 460</u>	<u>\$ 982</u>	<u>\$ 1,442</u>

See Notes to Financial Statements

MONTMORENCY COUNTY
100% TAX PAYMENT FUND
COMPARATIVE BALANCE SHEET
DECEMBER 31, 2003 AND 2002

ASSETS	<u>2003</u>	<u>2002</u>
Cash demand and time deposits		
Investments	\$ 1,488,330	\$ 1,062,472
Taxes receivable	1,326	216,018
Interest/penalties receivable	281,300	318,818
	<u>66,267</u>	<u>74,319</u>
Total Assets	<u>\$ 1,837,223</u>	<u>\$ 1,671,627</u>
 FUND EQUITY		
Fund Equity:		
Retained Earnings:		
Reserved for treasurer tax administration	\$ 23,483	\$ 23,059
Undesignated	<u>1,813,740</u>	<u>1,648,568</u>
Total Fund Equity	<u>\$ 1,837,223</u>	<u>\$ 1,671,627</u>

See Notes to Financial Statements

MONTMORENCY COUNTY
100% TAX PAYMENT FUND
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN RETAINED EARNINGS
YEAR ENDED DECEMBER 31, 2003 AND COMPARISON TO DECEMBER 31, 2002

	<u>2003</u>	<u>2002</u>
Operating Revenue:		
Penalties and interest on taxes	\$ <u>136,579</u>	\$ <u>106,090</u>
Total Operating Revenue	<u>136,579</u>	<u>106,090</u>
Operating Expenses:		
Note costs and other expenses	<u>190</u>	<u>977</u>
Total Operating Expenses	<u>190</u>	<u>977</u>
Operating Income	<u>136,389</u>	<u>105,113</u>
Nonoperating Revenue (Expenses):		
Interest revenue	31,207	36,276
Transfer to other funds	<u>(2,000)</u>	<u>(3,630)</u>
Total Nonoperating Revenue (Expenses)	<u>29,207</u>	<u>32,646</u>
Net Income (Loss)	<u>165,596</u>	<u>137,759</u>
Retained Earnings - January 1	1,671,627	1,451,948
Prior Period Adjustment	<u>-0-</u>	<u>81,920</u>
Retained Earnings - January 1 Restated	<u>1,671,627</u>	<u>1,533,868</u>
Retained Earnings - December 31	<u>\$ 1,837,223</u>	<u>\$ 1,671,627</u>

See Notes to Financial Statements

MONTMORENCY COUNTY
100% TAX PAYMENT FUND
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2003 AND COMPARISON TO DECEMBER 31, 2002

	<u>2003</u>	<u>2002</u>
Cash Flows From Operating Activities:		
Cash received from taxpayers - penalties and interest on delinquent taxes	\$ 144,631	\$ 113,691
Cash received from taxpayers - delinquent taxes	977,087	909,106
Purchase of delinquent taxes	(939,569)	(947,038)
Cash payments for goods and services	<u>(190)</u>	<u>(977)</u>
Net Cash Provided (Used) by Operating Activities	<u>181,959</u>	<u>74,782</u>
Cash Flows From Capital and Related Financing Activities:		
Residual equity transfer	<u>(2,000)</u>	<u>(3,630)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(2,000)</u>	<u>(3,630)</u>
Cash Flows From Investing Activities:		
Interest on investments	<u>31,207</u>	<u>38,960</u>
Net Cash Provided by Investing Activities	<u>31,207</u>	<u>38,960</u>
Net Increase (Decrease) in Cash and Cash Equivalents	211,166	110,112
Cash and Cash Equivalents - Beginning Of Year	<u>1,278,490</u>	<u>1,160,335</u>
Cash and Cash Equivalents - End Of Year	<u><u>\$ 1,489,656</u></u>	<u><u>\$ 1,270,447</u></u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:		
Operating Income	\$ 136,389	\$ 105,113
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Change in Assets and Liabilities:		
(Increase) Decrease in Receivables	<u>45,570</u>	<u>(30,331)</u>
Net Cash Provided (Used) by Operating Activities	<u><u>\$ 181,959</u></u>	<u><u>\$ 74,782</u></u>

See Notes to Financial Statements

MONTMORENCY COUNTY
COMBINING BALANCE SHEET - ALL AGENCY FUNDS
DECEMBER 31, 2003

	<u>Trust and Agency</u>	<u>Library</u>	<u>Total</u>
ASSETS			
Cash demand and time deposits	\$ 660,132	\$ 24,679	\$ 684,811
Total Assets	<u>\$ 660,132</u>	<u>\$ 24,679</u>	<u>\$ 684,811</u>
LIABILITIES			
Due to governmental units	\$ 48,727	\$ -0-	\$ 48,727
Undistributed collections	421,643	24,679	446,322
Other current liabilities	<u>189,762</u>	<u>-0-</u>	<u>189,762</u>
Total Liabilities	<u>\$ 660,132</u>	<u>\$ 24,679</u>	<u>\$ 684,811</u>

See Notes to Financial Statements

MONTMORENCY COUNTY
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
DECEMBER 31, 2003

	Balance January 1, 2003	Additions	Deductions	Balance December 31, 2003
<u>TRUST AND AGENCY</u>				
<u>ASSETS</u>				
Cash and investments	\$ 897,569	\$ 6,393,031	\$ 6,630,468	\$ 660,132
Total Assets	<u>\$ 897,569</u>	<u>\$ 6,393,031</u>	<u>\$ 6,630,468</u>	<u>\$ 660,132</u>
<u>LIABILITIES</u>				
Due to governmental units	\$ 5,455	\$ 1,254,855	\$ 1,211,583	\$ 48,727
Undistributed collections	692,108	3,918,070	4,188,535	421,643
Other current liabilities	<u>200,006</u>	<u>1,220,106</u>	<u>1,230,350</u>	<u>189,762</u>
Total Liabilities	<u>\$ 897,569</u>	<u>\$ 6,393,031</u>	<u>\$ 6,630,468</u>	<u>\$ 660,132</u>
<u>LIBRARY PENAL FINES</u>				
<u>ASSETS</u>				
Cash and investments	\$ 28,324	\$ 45,371	\$ 49,016	\$ 24,679
Total Assets	<u>\$ 28,324</u>	<u>\$ 45,371</u>	<u>\$ 49,016</u>	<u>\$ 24,679</u>
<u>LIABILITIES</u>				
Undistributed collections	\$ 28,324	\$ 45,371	\$ 49,016	\$ 24,679
Total Liabilities	<u>\$ 28,324</u>	<u>\$ 45,371</u>	<u>\$ 49,016</u>	<u>\$ 24,679</u>
<u>AGENCY FUND TOTALS</u>				
<u>ASSETS</u>				
Cash and investments	\$ 925,893	\$ 6,438,402	\$ 6,679,484	\$ 684,811
Total Assets	<u>\$ 925,893</u>	<u>\$ 6,438,402</u>	<u>\$ 6,679,484</u>	<u>\$ 684,811</u>
<u>LIABILITIES</u>				
Due to governmental units	\$ 5,455	\$ 1,254,855	\$ 1,211,583	\$ 48,727
Undistributed collections	720,432	3,963,441	4,237,551	446,322
Other current liabilities	<u>200,006</u>	<u>1,220,106</u>	<u>1,230,350</u>	<u>189,762</u>
Total Liabilities	<u>\$ 925,893</u>	<u>\$ 6,438,402</u>	<u>\$ 6,679,484</u>	<u>\$ 684,811</u>

See Notes to Financial Statements

MONTMORENCY COUNTY
GENERAL FIXED ASSETS GROUP OF ACCOUNTS
COMPARATIVE BALANCE SHEET
DECEMBER 31, 2003 AND 2002

ASSETS	<u>2003</u>	<u>2002</u>
Land and improvements	\$ 88,440	\$ 81,018
Buildings and improvements	1,744,447	1,744,447
Machinery and equipment	<u>1,105,135</u>	<u>1,113,406</u>
Total Fixed Assets	<u>\$ 2,938,022</u>	<u>\$ 2,938,871</u>
 FUND EQUITY		
Investment in fixed assets	<u>\$ 2,938,022</u>	<u>\$ 2,938,871</u>
Total Fund Equity	<u>\$ 2,938,022</u>	<u>\$ 2,938,871</u>

See Notes to Financial Statements

MONTMORENCY COUNTY
GENERAL LONG-TERM DEBT FUND
COMPARATIVE BALANCE SHEET
DECEMBER 31, 2003 AND 2002

	<u>2003</u>	<u>2002</u>
ASSETS		
Amount available in debt service funds	\$ 1,728	\$ 1,728
Amount to be provided for retirement of long-term debt	<u>913,732</u>	<u>957,669</u>
Total Assets	<u><u>\$ 915,460</u></u>	<u><u>\$ 959,397</u></u>
LIABILITIES		
Bonds payable - County Building Authority	\$ 850,000	\$ 900,000
Accrued sick and vacation pay	<u>65,460</u>	<u>59,397</u>
Total Liabilities	<u><u>\$ 915,460</u></u>	<u><u>\$ 959,397</u></u>

See Notes to Financial Statements



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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

June 4, 2004

County Board of Commissioners
Montmorency County
Atlanta, Michigan 49709

I have audited the general purpose financial statements of Montmorency County, Atlanta, Michigan, as of and for the year ended December 31, 2003, and have issued my report thereon dated June 4, 2004. In my report, my opinion on the financial statements was qualified because the general purpose financial statements do not include the general fixed assets account group for the entire County which should be included in order for the financial statements to conform with generally accepted accounting principles. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government and Auditing Standards, issued by the Comptroller General of the United States.

Compliance


As part of obtaining reasonable assurance about whether Montmorency County's general purpose financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, I noted certain immaterial instances of noncompliance, which I have reported to management of Montmorency County in a separate letter dated June 4, 2004.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Montmorency County's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses. However, I noted other matters involving the internal control over financial reporting, which I have reported to management of Montmorency County in a separate letter dated June 4, 2004.

Page 2
Montmorency County
June 4, 2004

This report is intended solely for the information and use of management, the Board of Commissioners, the Michigan Department of Treasury, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read 'T. R. Zick, CPA, P.C.', is written over the printed name.

THOMAS R. ZICK CPA, P.C.
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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

June 4, 2004

County Board of Commissioners
Montmorency County
Atlanta, Michigan 49709

COMPLIANCE

I have audited the compliance of Montmorency County with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended December 31, 2003. Montmorency County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Montmorency County's management. My responsibility is to express an opinion on Montmorency County's compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Montmorency County's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of Montmorency County's compliance with those requirements.

In my opinion Montmorency County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2003.

INTERNAL CONTROL OVER COMPLIANCE

The management of Montmorency County is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing my audit, I considered Montmorency County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

MEMBER: AMERICAN INSTITUTE OF CPAS & MICHIGAN ASSOCIATION OF CPAS

My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over compliance and its operation that I consider to be material weaknesses.

This report is intended solely for the information and use of management, the Board of Commissioners, the Michigan Department of Treasury, federal awarding agencies, and pass-through entities, and is not intended to be used and should not be used by anyone other than these specified parties.



THOMAS R. ZICK CPA, P.C.
CERTIFIED PUBLIC ACCOUNTANT

MONTMORENCY COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2003

<u>FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>PASS-THROUGH GRANTOR'S NUMBER</u>	<u>PROGRAM OR AWARD AMOUNT</u>	<u>RECEIPTS/ REVENUE RECOGNIZED</u>	<u>FEDERAL DISBURSEMENTS/ EXPENDITURES</u>
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>					
Passed Through Michigan Family Independence Agency Child Support Enforcement-Title IV-D	93.563	CS/PA-02-60002	\$ 12,377	\$ 12,377	12,377
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>					
Passed Through State Emergency Management Division Emergency Management Performance Grant State Domestic Preparedness Equipment Grant	97.042 97.004	N/A 02SDPP	8,543 26,859	8,543 26,859	8,543 26,859
Total Department of Homeland Security				\$ 35,402	\$ 35,402
<u>U.S. DEPARTMENT OF AGRICULTURE</u>					
Passed Through Montmorency Area Rural Community Housing Housing Preservation Grant	10.433	HPG2002	39,298	\$ 39,298	39,298
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>					
Passed Through Michigan State Housing Development Authority Passed to Montmorency Area rural Community Housing Community Development Block Grant Community Development Block Grant	14.219 14.219	MSC2000-5832 MSC2003-5832	300,000 225,000	\$ 15,000 153,555	\$ 15,000 153,555
Total Department of Housing and Urban Development				\$ 168,555	\$ 168,555
<u>U.S. DEPARTMENT OF JUSTICE</u>					
Direct Funding COPS in School	16.710	002SHWX02157	125,000	\$ 40,204	\$ 40,204
<u>U.S. DEPARTMENT OF COMMERCE</u>					
Special Economic Development Assistance	11.307	N/A	N/A	\$ -0-	\$ 4,133
TOTAL EXPENDITURES OF FEDERAL AWARDS				\$ 295,836	\$ 369,969

MONTMORENCY COUNTY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2003

1. Significant Accounting policies are detailed in Note 1 to the General Purpose Financial Statements. The accompanying schedule of expenditures of federal awards includes the federal grant activity of Montmorency County and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

2. The expenditure amount shown in the accompanying Schedule of Expenditures of Federal Awards from the U.S. Department of commerce under CFDA #11.307 is computed as follows:

Balance of outstanding loans/subject to continuing	
Federal compliance requirements \$56,464 X federal % (75%)	\$ 42,348
New loans granted/expenditures incurred	<u>31,785</u>
	<u>\$ 74,133</u>

The outstanding loans are revolving in nature and the original grant to Montmorency County occurred in 1987.

3. The Montmorency County Road Fund, a discretely presented component unit showed \$564,263 in federal aid, all of which is Michigan Department of Transportation projects and will be audited at the State level. These dollars are not included in the accompanying Schedule of Expenditures of Federal Awards.

MONTMORENCY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2003

SECTION I: SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's - Unqualified
report issued

Internal control over financial reporting:

Material Weaknesses identified - None

Reportable conditions identified not considered to be a material weakness - None reported

Noncompliance material to the financial statements noted - None

Federal Awards

Internal control over major programs:

Material Weaknesses identified - None

Reportable conditions identified not considered to be a material weakness - None reported

Type of auditor's report issued on compliance for major programs
- Unqualified

Are there any audit findings that are required to be reported in accordance with Circular A-133,
Section .510(a) - No

Major programs:

14.219 Community Development Block Grant

10.433 Housing Preservation Grant

The dollar threshold used to distinguish between Type A and Type B programs - \$300,000. There were no
Type A programs. All were Type B and were selected to meet the required 50% test.

The County qualified as a low risk auditee. - No

SECTION II: FINANCIAL STATEMENT FINDINGS

NONE

SECTION III: FINDINGS RELATED TO FEDERAL AWARDS

There are no findings required to be reported.

MONTMORENCY COUNTY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2003

There was no single audit required for December 31, 2002.



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FINANCIAL AUDIT COMMENTS

June 4, 2004

Montmorency County Board of Commissioners
Montmorency County
Atlanta, Michigan, 49709

In planning and performing my audit of the general purpose financial statements of Montmorency County, Michigan, for the year ended December 31, 2003, I considered its internal control structure in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control structure. However, I noted certain matters involving the internal control structure and its operation that I feel should be brought to your attention as follows:

BUDGETS

Budgetary Procedures

The Board of Commissioners properly adopted a budget for the General Fund for the year ended December 31, 2001 in accordance with Public Act 621 of 1978, The Uniform budgeting and Accounting Act.

Public Act 621 of 1978, section 18 (1), as amended, provides that a County shall not incur expenditures in excess of the amount appropriated. In the body of the financial statements, the County's actual expenditures and budgeted expenditures for the General Fund has been shown on a functional basis. The approved budget of the County for the General Fund was adopted on a line item basis by activity. The County did not incur any unfavorable budget variances in the funds which is a major improvement over prior years.

The County did budget for a fund balance deficit in the general fund in the amount of \$2,499 which violates PA 621.

The fund balance should be used as the starting point for each funds budget. The following formula complies with PA 621.

Beginning fund balance + revenues - expenditures = budgeted ending fund balance.

In the special revenue funds there is no reason for revenues to equal expenditures in the budget if there is an opening fund balance.

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Budgets should be in round dollars. They are meant to be estimates and dollars and cents for a number indicates more precision than a budget normally is intended to have.

Most of the budgeted amounts for operating transfers out from the general fund did not agree with the operating transfer in on the special revenue fund. The transfer out must equal the transfer in to the other funds.

FIXED ASSETS

The County has had the general fixed asset account group prepared, and the balances are reflected in the audit report. However, in order for this schedule to be valid in the future, several things must be done annually:

1. The schedule must be updated annually and it must be updated as of your fiscal year end which is December 31.

2. The additions to the schedule need to be reconciled to the County capital outlay ledger accounts.

3. The library is a special area which needs some attention before GASB #34 implementation. The books, while individually do not exceed the capitalization policy set by the County, collectively do and this area is an exception to the normal rule.

4. You need to have depreciation calculated for 2003 so you are ready for GASB #34 which requires both a beginning and end of the year capital asset balance.

Fixed assets were not updated for 2003. However, there were very few additions and disposals to account for.

EDC

There are several loans being collected in this department. To establish better accounting control over the collection process I suggest a total be set up in the County general ledger, and the detail be reconciled to that total monthly. This is a repeat comment from prior years.

A formal follow-up procedure needs to be in place to assure that borrowers are providing periodic financial data. It is important to stay abreast of current developments within the borrowers business in order to assure collection of the outstanding balances.

CLERK

The accounts payable/accrued wage entry posted at year end needs to have a worksheet/spreadsheet summary to tie the detail records to the total posting. This summary needs to be prepared by fund.

Third party sick pay W-2s were not issued to employees receiving salary continuation payments from the insurance company. It is normally the responsibility of the employer to prepare those forms.

TREASURER

Interest on certificates of deposit for both the Landfill and the Tax Revolving Fund were not posted currently, primarily because the bank did not provide adequate reporting. I suggest that at least quarterly, the bank be requested to send a statement on the long-term certificates of deposit so they can be posted current.

OTHER/GENERAL

The medical reimbursement program has vastly increased the volume of checks written by the County over the past several years. In many instances these checks are for \$5 or \$10. I feel the policy should be reviewed and possibly require semi-annual or even annual reimbursement. This would cut down the time and cost needed to manage the program and would make verification of the bills more efficient, because it would not be necessary to review prior records to assure no double payments are made.

I understand that some employees objected to the periodic reimbursement so an alternative would be to set up an imprest account which could be used to pay these expenses and then periodically reimburse the imprest account from the general account. I also feel that a change should be negotiated into your union agreement to allow for periodic payments. There is no reason for so many small checks to be issued from your common bank account and posted to your general ledger. It makes the disbursement process very time consuming.

An invoice in the amount of \$2,496 was double paid to a vendor from the State Domestic Preparedness Fund. This occurred because the original quote was approved for payment by the emergency management director as was the actual invoice received from the vendor. The payment was made early in 2003, over a year ago. I suggest that the vendor be contacted immediately and be required to remit the overpayment to the County. This occurred in a program funded with federal dollars so it is imperative that immediate procedures be implemented to recover the overpayment.

The board might consider reviewing the Building Authority debt. With interest rates at all time lows, it's possible that by refunding the debt, the interest rate could be lower and the net savings, even after paying for the reissuance costs, might be large enough to justify refinancing.

A fund balance deficit occurred in the Residential Homestead Audit Fund. The deficit is minor, but the deficit violates PA 621. A deficit elimination plan should be filed with the Local Audit Division of Treasury.

DISCRETELY PRESENTED COMPONENT UNIT - SOLID WASTE MANAGEMENT AUTHORITY

ACCOUNTS RECEIVABLE / BILLING STATEMENTS

The accounts receivable posting process, while working, appears to still need additional accounting controls. I would suggest that a control total be set up in the County Treasurer ledger. Monthly, sales billings would be posted through a journal entry and payments would be posted through the receipts procedure to accounts receivable. At month end, the control receivable balance would be reconciled to a detail listing by hauler. The Treasurer's office would maintain the control totals while the detail receivables would be maintained in the Authority office. This is a repeat comment from last year.

CASH/CERTIFICATES OF DEPOSIT

The certificates of deposit had interest posted throughout the year if a certificate matured. However, the escrow agent (National City Bank) was not providing a periodic statement so some interest had been earned but not recorded. It is essential that a monthly statement be received so the activity can be properly monitored. I have contacted the escrow agent and they assured me this will be done in 2004.

LONG-TERM DEBT

The long-term debt total at December 31, 2003 is \$1,569,182 which has decreased by \$332,004 over the prior year. This debt still includes \$225,000 plus interest on the bonds for cell-A phase I, which was full at the end of last year (December 31, 2002). Paying the final payments on a cell almost two years after it is full is not good financial management. The Board should try to have all outstanding debt paid, on or before the time the cell is full.

ACCOUNTING PROCEDURES

The Authority needs to improve in recording and processing certain accounting transactions. For example, during 2003 equipment purchases were charged as an expense but should have been capitalized as a fixed asset to be depreciated. The bond principle payments were classified as an expense and should have been posted as a reduction in the liability accounts and the payments on the equipment lease/purchases should be separated between interest and principle and posted to interest expense and as a debit to the liability account rather than the entire payment being posted as an expenditure.

We can assist your personnel in understanding these entries.

This report is intended solely for the information and use of Montmorency County Board of Commissioners, management, and others within the administration as well as the Michigan Department of Treasury, and is not intended to be and should not be used by anyone other than these specified parties.



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CIRCULAR A-133 COMMENTS

June 4, 2004

Montmorency County Board of Commissioners
Montmorency County
Atlanta, Michigan 49709

In planning and performing my audit of the general purpose financial statements of Montmorency County, Michigan, for the year ended December 31, 2003, I considered its internal control structure in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control structure. In addition, as required under Circular A-133, I performed tests of compliance and considered Montmorency county's internal control over compliance requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures on compliance. In performing those tests I noted certain immaterial matters of non-compliance which are not required under Circular A-133 to be disclosed in the Schedule of Findings and Questioned Costs, but I feel should be brought to your attention as follows:

State Domestic Preparedness Equipment Grant – CFDA 97.004

An invoice in the amount of \$2,496 was double paid to a vendor from the State Domestic Preparedness Fund. This occurred because the original quote was approved for payment by the emergency management director as was the actual invoice received from the vendor. The payment was made early in 2003, over a year ago. I suggest that the vendor be contacted immediately and be required to remit the overpayment to the County. This occurred in a program funded with federal dollars so it is imperative that immediate procedures be implemented to recover the overpayment.

Community Development Block Grant –CFDA 14.219


These funds were administered on behalf of the County by a private non-profit corporation, Montmorency Area Rural Community Housing, Inc., the sub-recipient (MARCH, Inc.) This sub-recipient entity was required to have an A-133 audit performed and did so. The audit reported no findings or questioned costs and reported no reportable conditions.

The County Board of Commissioners received a copy of the report and reviewed it as part of their monitoring process. In addition, the County Board has a representative who is an active participant on the MARCH, Inc. advisory committee but that individual is only involved in the grant expenditure process, not program income expenditures.

I feel, that several additional monitoring steps should be performed to provide the County with better assurance that the grant funds and the related project income is spent in accordance with Federal and State guidelines as follows:

1. Require a monthly report detailing the use of program income.
2. Require a monthly report showing program income received.
3. Require a copy of the periodic report to MHSDA be provided to the County.

Finally, the County should receive assurance from MARCH, Inc. that no MHSDA housing dollars were used to fund the sub-recipients subsidiary the New Markets Fund for Rural Michigan, LLC which, according to its literature is to be used to access private resources for community and economic development in the area, not housing.


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June 4, 2004

Montmorency County Board of Commissioners
Montmorency County
Atlanta, MI 49709

In planning and performing my audit of the financial statements of Montmorency County for the year ended December 31, 2003, I considered the County's internal control structure in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements. The consideration I gave to the internal control structure was not sufficient for me to provide any form of assurance on it. However, in reviewing the County's processes and systems, I made observations I feel should be communicated to you and I have done so in a separate letter dated June 4, 2004. In addition I have summarized other areas for Board consideration involving internal controls and fraud considerations.

If you have any questions on the information contained in this letter please contact me.

A handwritten signature in black ink, appearing to read 'T. R. Zick CPA, P.C.', written over a horizontal line.

THOMAS R. ZICK CPA, P.C.
CERTIFIED PUBLIC ACCOUNTANT

Enclosure

Internal Controls

Over a relatively short period of time, there have been several large fraud related cases documented in the mid-Michigan area, as well as in other areas of Michigan and throughout the country. These highly publicized cases have raised significant concerns for management of many organizations, as well as the board members of these not-for-profit organizations and governmental organizations, concerning their organization's vulnerability to internal or external fraud related activities. It is strongly believed that all organizations, both small and large, have some level of risk in this area and even having the "best practices" in place will not necessarily prevent the occurrence of this unfortunate activity.

Through many recent conversations with my clients regarding their susceptibility to fraud, it was noted the most important element necessary to reduce the risk of fraud is to have a sound organizational structure, which includes sound accounting and internal control policies and procedures (IN THE EYES OF THEIR EMPLOYEES). One of the key aspects of strong controls, and thus a deterrent, is senior management's support and involvement with accounting and internal control monitoring and related decisions.

Some of the key areas to focus on include, but are not limited to, the following:

- Cash receipts handling and posting to general ledgers including the initial posting of cash receipts and delinquent tax receipts.
- Posting of adjusting journal entries to the ledger
- Cash disbursements, including the establishment of vendor master files in the computer system and maintenance and controls surrounding the signature of cash disbursement checks.
- Payroll, including the access to all master files detailing wage rates and other information, and the establishment of new employees in the computer system.
- Proper approval procedures for all disbursements including a good checks and balances system i.e.: no one person responsible for this function.

Fraud Considerations

Statement on Auditing Standards No. 99 (SAS 99), consideration of Fraud in a Financial Statement Audit

Effective for the year ended December 31, 2003, Statement on Auditing Standards No. 99 (SAS 99), *Consideration of Fraud in a Financial Statement Audit*, requires additional audit procedures addressing the risk of fraud in an organization. Our responsibility is not to detect fraud, but to detect material misstatements in the financial statements caused by fraud, and our consideration of fraud is integrated into the overall audit process.

Types of fraud include intentional misstatements or omissions in financial reporting and misappropriation of assets. SAS 99 requires auditors to address:

- How and where the client's financial statements might be susceptible to material misstatement due to fraud and what conditions might be present to allow fraud to occur.
- How management could perpetrate and conceal fraud.
- How management or employees could misappropriate assets of the client.

In addition, SAS 99 requires auditors to make inquiry of:

- Management regarding their awareness and understanding of fraud, fraud risks, and steps taken to mitigate risks.
- Others within the entity, including board members, non-financial executives, administrators, and non-management personnel not directly involved in the financial reporting process, regarding the existence or suspicion of fraud and the individual's views about the risks of fraud within the entity.

Risk areas identified through inquiries and based on industry knowledge will significantly affect the audit process. With your help, the implementation of these new standards will certainly lead to a greater comfort in the controls you have designed and implemented. It may even create greater efficiency in the accounting process as a byproduct of the process.

Creating a Culture of Honesty and High Ethics

It is the county's responsibility to establish core values and to effectively communicate the values to employees in order to create a culture with high ethical standards. The AICPA has included the following as key components necessary for the creation of such a culture.

Setting the Tone at the Top

Management, through the modeling of high ethics themselves and effectively communicating expectations to employees, is responsible for leading the effort to create the appropriate culture within a county.

Fraud Considerations (continued)

Creating a Positive Workplace Environment

The creation of a positive workplace environment, where employees feel they are treated fairly, has proven to reduce the risk of fraud. This type of environment could be created as follows:

- Allowing employees to provide input related to the code of conduct
- Enabling employees to internally seek advice concerning decisions that appear to have ethical implications
- Establishment of a fair reward system
- Implementation of team-focused decision making policies

Hiring and Promoting Appropriate Employees

Policies must be effective in reducing the chances of hiring and promoting individuals with low ethical standards.

Training

Core values expressing an attitude of intolerance toward unethical behavior should be communicated immediately to new hires and should be re-communicated periodically to all employees.

Confirmation

Reinforcement of core values occurs if the employees are required to sign a code of conduct statement.

Discipline

Consequences of unethical behavior should be communicated upfront, and management response to unethical behavior should be consistent with the consequences communicated. Management's response demonstrates the level of commitment to the ethical standards and could deter future wrongdoing.

Evaluating Antifraud Processes and Controls

Perceived opportunity to successfully commit fraud increases the risk that fraud will occur. The following can help in reducing the opportunity for fraud:

Identifying and Measuring Fraud Risks

The County's vulnerability to fraudulent activity (including fraudulent financial reporting, misappropriation of assets, bribery and other illegal acts) should be assessed.

Fraud Considerations (continued)

Implementing and Monitoring Appropriate Internal Controls

Internal processes can be modified to reduce fraud risk. Examples of such process modifications are as follows:

- Additional review of the procurement process
- Segregation of duties
- Adequate scrutiny of interim financial reports and budget reports by management

Developing an Appropriate Oversight Process

Whether it is external or internal oversight, appropriate oversight should be identified and established.

Board of Commissioners

The Board of Commissioners is ultimately responsible for ensuring management is doing an effective job of monitoring fraud risk and implementing procedures to mitigate fraud risk. Therefore, the Board of Commissioners should be evaluating management's assessments and controls. Also, the Board of commissioners should assess management's ability to override controls and to establish controls to minimize this risk.

Independent Auditors

Independent auditors can provide an assessment of the County's process for identifying, assessing and responding to the risk of fraud.

Certified Fraud Examiners

Certified Fraud Examiners can provide additional insight into the risk assessment.

Other Information

The following Web sites provide additional guidance on fraud and the implementation of anti-fraud programs and controls:

American Institute of Certified Public Accountants
Association of Certified Fraud Examiners
Financial Executives International
Information Systems Audit and Control Association
The Institute of Internal Auditors
Institute of Management Accountants
National Association of Corporate Directors
Society for Human Resource Management

www.aicpa.org
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